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WEDNESDAY AUGUST 28 1996



Political battle looms over Iraqi hijackers in UK

A political row broke out over the fate of the Iraqi hijackers of a Sudanese airliner who surrendered to police at London's Stansted Airport after freeing the 199 passengers and crew. Several prominent Conservative MPs urged the UK government to expel the hijackers while an opposition backbencher said such action could risk their assassination by President Saddam Hussein's regime. Page 12

Bosnian municipal elections postponed
Bosnian municipal elections have been postponed because of alleged irregularities by Serb authorities in registering voters. The elections had been planned to coincide with the first national poll since the country's civil war. Page 12; Web of protection, Page 11

US bid to stem Helms-Burton damages
The Clinton administration is sending a top trade diplomat to Mexico, Canada and Europe to try and repair the damage to US relations with some of its closest allies caused by the passage of the controversial Helms-Burton Act on investment in Cuba. Page 4

Swiss Reinsurance, number two among companies which protect conventional insurers against losses, has bought Mercantile & General, the reinsurance arm of the Prudential Corporation, for \$1.75bn (\$2.7bn). Page 13; Lex, Page 13

Kremlin accused of 'stupidity'
Russia's business community accused the Kremlin of everything from "stupidity" to "Machiavellian" over proposals to tax all personal bank deposits and withdrawals and tighten restrictions on cash withdrawals by businesses. Page 12

Daimler-Benz, the German transport group, is expected to announce that it has recovered strongly from last year's record net loss of DM5.7bn (\$3.5bn) as it reports half-year results. The company recorded the worst financial loss in German corporate history in 1995. Page 13; Weighing up managerial fat, Page 14

Computer Associates in Internet moves
Computer Associates, the US-based business software group, has set up an Internet unit called NetHaven designed to help business customers create, manage and promote multimedia corporate World Wide Web sites. Page 15

Amer, the Finnish group which controls US sports equipment maker Wilson and other sports brands, reversed the recovery in its battered shares when it warned it was likely to remain in the red this year. Page 13

Concern over Danish anti-EU case
Concern is growing that legal action by opponents of Denmark's European Union membership could impede the country's participation in development of the EU and hinder moves towards closer integration agreed by member states. Page 2

Roche shares fall
Shares in Roche, the Swiss drug company, fell after the company said first-half operating profits were hit by drugs price cuts in Japan and Italy as well as price cuts in fragrances and at its US laboratory business. It also warned of increasing marketing costs. Page 13

Flat reaction to Bass merger
Response to the merger of the brewing interests of Bass and Carlsberg-Tetley was muted, soothing fears of Bass, Carlsberg and Allied Domecq that the agreement could face referral to the Monopolies and Mergers Commission in the UK. Page 17

MAN, the German truck and printing machine manufacturer, posted a 21 per cent rise in provisional pre-tax profits for the year ended June 30, from DM272m to DM330m (\$223.2m). Page 14

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STOCK MARKET INDICES			
New York S&P 500	5,702.03	(+1.14)	
NASDAQ Composite	1,144.66	(+5.43)	
Europe and Far East			
FTSE 100	2,558.94	(+8.84)	
DAX	3,806.7	(+1.2)	
Nikkei	20,918.27	(+26.53)	

US DOLLAR RATES			
Federal Funds	5.5%		
3-month T-bill	5.177%		
Long Bond	5.7%		
Yield	5.962%		

OTHER RATES			
UK 3-month Interbank	5.1%	(+0.14)	
UK 10 yr Gilt	5.7%	(+0.15)	
France 10 yr OAT	5.1%	(+0.15)	
Germany 10 yr Bund	5.1%	(+0.15)	
Japan 10 yr JGB	5.1%	(+0.15)	

NORTH SEA OIL (August)			
Brent Blend	20.535		
Tokyo	20.535		

US calls off talks with UK on open skies deal

By Michael Skapinker, Aerospace Correspondent

The US has called off today's talks with the UK on an open skies agreement, throwing into doubt the planned alliance between British Airways and American Airlines.

The US government said yesterday that it had told UK negotiators there was no point in coming to Washington because British proposals "fell so far short of providing the

essential elements of an open skies agreement that talks would not be productive."

Although the two sides said they would remain in touch, no date has been set for the resumption of talks.

The US has made the conclusion of an open skies agreement a precondition for approval of the BA-American link-up, which would be the most powerful alliance in world aviation.

The UK is committed to con-

cluding an open skies agreement but the two governments differ over what the term means. The UK has been resisting US demands that its carriers be given the right to fly to third countries from the UK, the so-called "beyond rights".

The US is believed to be reluctant to accept a UK proposal for a tribunal to be set up to protect smaller carriers against predatory pricing and anti-competitive behaviour by

larger airlines. The UK Department of Transport said yesterday it was surprised at the US decision. It said its proposals "go a long way to removing restrictions on the aviation market, in particular the opening of airports."

BA said it thought the delay in negotiations would be temporary. The airline said: "Both sides are committed to delivering an open skies agreement. It's a bold and imaginative objective, and given the scale

of what's being attempted some complications were inevitable."

At a meeting at the White House on Monday - attended by representatives of the State Department and the Department of Justice and Transportation - officials decided the gap between the two countries was still too wide.

The UK is resisting the conclusion of an agreement similar to that signed by the US and Germany earlier this year.

The UK believes this agreement is biased in favour of the US because, among other things, it grants "beyond rights" to US carriers without giving German airlines the ability to carry passengers within the US or to acquire US carriers.

A difficulty for the US in agreeing to an improved agreement with the UK is that Germany has the right to revise its accord if any other country receives better terms.

UK insurance market clears final hurdle

US court lifts threat to Lloyd's recovery plan

By Ralph Atkins in London and Richard Waters in Baltimore

New hurdle for Lloyd's... Page 10
Lex... Page 12

Lloyd's of London was last night poised to announce a dramatic comeback for the 308-year-old insurance market after overturning a US court order which had threatened to undermine its \$2.2bn (\$3bn) recovery plan.

An eleventh-hour appeal court ruling in Baltimore dismissed an injunction imposed last Friday by a federal court in Virginia and clears the way for Lloyd's to declare its recovery plan unconditional this week.

Earlier, the UK Department of Trade and Industry had warned that failure to overturn the injunction - which would have forced Lloyd's to comply with US securities laws and supply considerably more information about the plan - could have forced Lloyd's out of business.

Lloyd's had been under acute time pressure because it has to pass DTI and US regulatory tests within the next few weeks.

Although hardline US Names have mooted other possible legal remedies, the Vir-

ginia ruling was the last hurdle faced by Lloyd's as it attempted to recover from more than \$28bn in losses in recent years. The convincing appeal court win looks set to mark the end of years of litigation which had crippled debt collection and frequently cast doubt over Lloyd's survival.

The appeal result came less than 18 hours ahead of a noon deadline set for Names - the individuals whose assets have traditionally supported the insurance market - to accept or reject the plan. An extension of four or five days is now expected.

Earlier, Lloyd's announced that 82 per cent of its 34,000 Names had accepted the settlement offer - enough to declare the deal "unconditional" - and the total now looks set to rise to nearer 90 per cent.

Lloyd's ruling council meets tomorrow with an announcement expected soon after. Last night, Mr David Rowland, Lloyd's chairman, said: "This decision removes the remaining major legal obstacle to

implementation of the reconstruction plan. We always believed that we were doing the right thing for the membership of the society [of Lloyd's]."

There is no precise level of support required for the plan to go unconditional because Lloyd's has to meet two objectives. It must end litigation by Names for damages for their losses and it must also raise sufficient funds from Names to finance Equitas - a giant reinsurance company that will take responsibility for billions of pounds of mainly US asbestos and pollution liabilities.

Support for the recovery plan has been higher in the UK but exceeded 80 per cent among the 3,000 US Names.

Lloyd's has warned those who reject the plan that they will be pursued rigorously for outstanding debts.

With only a few thousand rejecting the plan there is likely to be little support for further litigation. However, Mr Tony Welford, chairman of the Paying Names' Action Group which this month launched a last-minute legal challenge in the UK, said the court ruling was "a disgraceful victory over the rights of the individual".

US rivals square up in nappy market

By Hugh Carnegie in Stockholm

A fierce battle for customers in Europe's disposable baby nappy market intensified yesterday when Kimberly-Clark took over the Pampers brand in France from the Swedish pulp and paper group SCA.

The acquisition pitched Kimberly-Clark into a head-to-head struggle for supremacy with Procter & Gamble, its rival US producer.

In exchange SCA took over Kimberly-Clark's tissue mill at Prudhoe in northern England.

Pampers will be added to the Dallas-based Kimberly-Clark's own Huggies brand, taking the company's market share in France to around 30 per cent behind the 40 per cent share held by Pampers.

Mr Robert Thibault, Kimberly-Clark's European head of infant care products, said the acquisition of Pampers was an important step in the company's two-year campaign to break into west European markets. "It is a key strategic

China steps closer to backing new leadership team

By Tony Walker in Beijing

China appears to have moved closer to endorsing a new leadership team which would bolster President Jiang Zemin and pave the way for a replacement for Premier Li Peng, who retires in early 1998.

China's leaders, who have been meeting in private at a beach resort east of Beijing, have reviewed a "proposal for changes to the high leadership" which would involve appointing Mr Jiang as "chairman" of the Communist party.

The title of chairman had appeared to have died with Mao Zedong 20 years ago.

The new line-up is not due to be approved until a Communist party congress scheduled for late next year, but the proposed personnel shifts are likely to be debated at a plenary session of the party Central Committee to be held in Beijing next month.

Mr Jiang, who is regarded as cautious in his approach to economic reform, appears to be drawing more of his cronies into the party's inner circle.

Under the new structure, Mr Li Peng and Mr Qiao Shi, head of the National People's Congress, China's parliament, would become party vice-chair-

men. Both would retain their positions on the ruling standing committee of the politburo. The proposed elevation of Mr Wu Bangguo, 65, to the politburo standing committee indicates the former party secretary of Shanghai is front-runner for the premiership, ahead of his rival, Mr Li Lanqing.

Both Mr Wu and Mr Li are vice premiers.

Opposition to the party restructuring comes from the party's liberal wing, which argues that the move smacks of a return to the "bad old days".

Changes to the party constitution would be required to accommodate the revival of the chairmanship and the positions of two vice chairmen. It is not clear whether Mr Jiang would keep his current posts as state president and chairman of the Central Military Commission, but in an apparent attempt to prepare public opinion for the revival of the party chairmanship state media have begun referring to him as "Chairman Jiang".

This refers now to his position as chairman of the CMC, but is also clearly intended as a trial balloon for his appointment as party chairman.

Clinton courts grassroots support



US president Bill Clinton meets supporters during his rail trip through the Midwest to the Democratic convention in Chicago where he will claim the party's presidential nomination. Speaking at a factory in Toledo, Ohio, yesterday Mr Clinton praised the trade union movement and promised renewed efforts to combat illiteracy. "There is a connection between what we do, or fail to do, in Washington and how you live here in Toledo," he said. Clinton heads for celebratory Democratic convention, Page 6

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NEWS: EUROPE

Concern over Danish anti-EU case

By Hilary Barnes
in Copenhagen

Concern is growing that a court action by opponents of Denmark's European Union membership could impede the country's participation in development of the EU and hinder moves towards closer integration agreed by member states.

The Danish supreme court this month decided that 11 citizens could mount a constitutional challenge to Denmark's signature of the Maastricht treaty. All the hearings and appeals stages of the case could take four years or more. Within this time parliament is likely to have to decide whether to ratify amendments to the treaty that may be agreed by the intergovernmental conference (IGC) reviewing Maastricht and EU institutions.

Diplomats are concerned

Draft budget comes under fire as 'too timid and over-optimistic'

Employers, opposition politicians and analysts yesterday criticised Denmark's draft 1997 budget as too timid and based on an over-optimistic forecast of 3 per cent GDP growth, Røntgen reports from Copenhagen.

Employers' Federation chairman Niels Fog said the budget failed to take real action against unemployment. "It is disappointing the government has come up with a budget proposal devoid of vital structural change to the labour market," he said.

The draft sees 1997 unemployment falling to 8.6 per cent, from a projected 9 per cent in 1996 and 10.3 per cent in

1995. Analysts believe a welter of job creation schemes and retraining programmes mask a far higher real level.

The budget proposal warns unemployment should be brought down gradually to avoid upward wage pressure and ensuing economic costs. The budget is still subject to ratification by parliament in December, when the Social Democrat-led minority government will hammer out, with opposition parties, spending on areas such as welfare, education and health.

The opposition Conservative party

said the draft lacked vision; it hoped the government was prepared to make "fairly substantial" changes. "The budget shows a government without ambition or the will to live up to its own goals," Ms Pia Christensen-Møller, the party's finance spokeswoman, said.

The junior coalition partners, the Radical Liberals, said: "Many call this draft the most boring in years, but that is exactly the point. Denmark has one of the most robust economies in Europe, so we can allow ourselves a budget free of drama." Mrs Hanna Duer of MMS International predicted 1997 GDP growth of 2-2.5 per cent.

signals in the court papers. None has been prominent politically in the past, and not all belong to any one of Denmark's many anti-EU organisations.

It centres on a paragraph in the 1953 constitution which lets parliament delegate sovereignty to international institutions "to such an extent as may be provided by statute". The 11 argue that the Maastricht treaty does not recognise the limits implicit in the constitution.

Few commentators believe the courts will rule that the ratification was unconstitutional. Not only has parliament approved membership of the EU, but membership has also been endorsed by referendums in 1972, 1986 and 1993. But some lawyers think the courts may specify in greater detail the limits to which parliament can go in delegating sovereignty.

EUROPEAN NEWS DIGEST

Bonn stays its hand over aid

Bonn yesterday held back from a legal challenge to the European Commission's decision to cut state aid for two Volkswagen plants in Saxony, in the hope of reaching an out-of-court settlement.

Speaking after a cabinet meeting, Mr Günter Rexrodt, economics minister, said the federal government fully supported Saxony's claim that it was entitled to grant DM241m (\$162m) of investment assistance blocked by Brussels. It would continue to prepare a case for the European Court, but wanted to use the time between now and September 18, the deadline for launching the case, to reach a settlement. "We do not want any escalation now," he added.

Saxony said it welcomed the government's decision. The eastern state has already disbursed DM91m of the disputed aid to Volkswagen and last week initiated legal proceedings against the Commission's cuts. But before the outcome of the Bonn cabinet meeting was known, Mr Kurt Biedenkopf, the Saxony prime minister, had said he would not support a "dubious compromise" to save the face of Mr Karel Van Miert, the EU competition commissioner.

Peter Norman, Bonn

Estonia fails to pick president

Estonia's parliament yesterday again failed to elect a president, delaying a decision for another month. Mr Lemar Meri, the incumbent, fell 16 short of the necessary two-thirds of votes in the 101-seat chamber, winning 52 against 32 for his rival, Mr Arnold Ruutel.

Mr Meri, who enjoys popular support, enraged many MPs with his arrogant demeanour. Accusations that he collaborated with the KGB and criticism of a 1994 Russian troop withdrawal treaty, which allows retired Soviet officers to stay in Estonia, made him unpopular in the deeply patriotic Baltic state. Mr Ruutel, a former Soviet farm boss and nationalist, may find more sympathy for his candidacy among the 378 regional government heads who, with MPs, will form the new electoral college next month.

Matthew Kaminski, Kiev

New Hungarian minister

Hungary's governing Socialist party yesterday nominated Mr Tamas Suchman as industry and trade minister to replace Mr Imre Duni, who announced two weeks ago he was retiring after just a year in the job. Mr Suchman, 42, on the left of the party, will retain his present responsibility for privatisation, which is nearing completion and is managed by APV, a state agency.

Mr Suchman, who took over the new post of privatisation minister last year, is credited with helping push through nearly \$4bn worth of sales in 1995, including stakes in several utilities, despite considerable logistical and political obstacles. One of his most pressing tasks, however, will be to resolve a row over promised energy price rises that has rattled the western utilities that participated in the sector's privatisation.

The dispute over the level and timing of the increases is seen as a factor behind Mr Duni's resignation. The Free Democrats, the junior coalition partner, are not expected to oppose the appointment.

Virginia Marsh, Budapest

Bulgarian poll bid blocked

Bulgaria's electoral commission yesterday refused to register the two main candidates in October's presidential poll, saying their papers were incomplete and contained irregularities. Mr Georgy Pirinski, foreign minister and a reformer backed by the former communist Bulgarian Socialist party (BSP), and his main opposition rival, Mr Petar Stoyanov, have three days to appeal to the supreme court to overturn the ruling.

The constitutional court has ruled that Mr Pirinski cannot become president. All candidates must be Bulgarian by birth, whereas Mr Pirinski was born in New York to a Bulgarian father and Slovak mother. The BSP ignored the decision, accusing the court of bias.

Mr Stoyanov, a lawyer, has had difficulties in having his application papers signed after one of the opposition coalition of parties backing him sacked its leader. Four other candidates have so far said they will run for the post but have yet to register officially. They elections are on October 27.

AFP, Sofia

Austria plans motorway tolls

Drivers will be charged for the use of Austrian motorways from next year, the government said yesterday. But it made some concessions on the scale of fees in the face of international and domestic protests. Mr Johann Farnleitner, the economics minister, said cars and trucks using Austrian motorways and A-roads would face a yearly charge of Sch550 (\$53) from January 1. Motorcycles would pay Sch250 and coaches Sch6,000. But he introduced a weekly fee of Sch70 to soften the blow to tourists.

Road users can buy a two-month pass for Sch150, Sch80 or Sch1,500, depending on the type of vehicle. One-off journeys on existing toll roads, such as the Brennerautobahn, Arlberg tunnel or Pyhrnautobahn, will qualify for a 15 per cent discount.

Reuters, Vienna

Spain's trade deficit narrowed by 6.1 per cent in the first half to Pta1.834bn (\$10.8bn), according to the finance ministry. It said the figures showed a stronger second quarter for exports and imports, although the growth of both slowed in June. Exports over the six months were 10.7 per cent higher at Pta5,373bn and imports 7.4 per cent up at Pta7,707bn. Spain's shortfall in trade with rest of the EU shrank by 19.1 per cent to Pta299bn.

Sweden had a trade surplus of SKr9.55bn (\$1.4bn) in July compared with a surplus of SKr14.3bn in June. The producer price index was down 0.1 per cent in July from June and 4.3 per cent from a year earlier.

Switzerland's current account surplus in 1995 rose to SFr25bn (\$20.8bn) from a revised SFr24.4bn a year earlier.

Ministers sacked in Slovak reshuffle

By Jeff Lovitt in Prague

The Slovak premier, Mr Vladimir Meciar, yesterday sacked the three most senior members of his cabinet, in a move which appeared to strengthen his own position while deflecting opposition attacks on government policy.

Diplomats gave a guarded welcome to the replacement of Mr Jural Schenk as foreign minister with Mr Pavel Hamzik, 42, a career diplomat.

He is said to have made a good impression on Slovak ambassadors to Bonn since May 1994, a specially useful attribute because Germany's Chancellor Helmut Kohl has been the most vociferous European Union critic of lack of democracy in Slovakia.

Removing Mr Schenk could also be used by Mr Meciar to counter criticisms that his government is not doing enough to further Slovakia's cause in seeking membership of the European Union and Nato.

The second to be affected by the reshuffle is the interior minister, Mr Ludovit Hudek, whose resignation had been sought by the opposition.

Mr Hudek's replacement is Mr Gustav Krajci, 45, who has no government experience. He is the secretary of Mr Meciar's Movement for a Democratic Slovakia (HZDS) in Bratislava and can be expected to remain loyal to his patron.

Mr Karol Cesnek, 49, at present managing director of the Slovak Electricity monopoly, replaces Mr Jan Duchy as economics minister.

Mr Ivan Simko, vice-chairman of the opposition Christian Democratic Movement (KDH), said there was "political logic" to the reshuffle, in particular the need to improve Slovakia's image abroad and to fight rising crime.

Mr Meciar's long-time political foe, President Michal Kovac, agreed to the cabinet changes during a weekend meeting which lasted barely 15 minutes - the first time the two had met since they jointly greeted Pope John Paul II on his visit to Slovakia in July last year.

Mr Kovac has the right to appoint and dismiss cabinet members, but quickly assented to the changes.

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Kiev tries to ease hryvna's birth

Matthew Kaminski reports on Ukraine's moves to protect its reborn currency

Ukraine yesterday moved to boost public confidence in its currency reform, imposing a month-long price freeze from next Monday's issue of the new money and threatening action against speculative money changers.

The steps come two days after the government, saddled with a reputation of economic mismanagement, decided to replace the temporary karbovanets (or coupon) with the hryvna to mark the country's fifth birthday.

The biggest change will be five less zeros, but Kiev has proclaimed the return to the monetary unit used before Russians imposed their rule in the 17th century as a symbol of an independent and prosperous Ukraine.

The government fears that a run on the currency even before the hryvna comes into circulation would undermine its most ambitious recent attempt at improving confidence and luring capital back into the official economy. The value of the karbovanets dropped 50 per cent in some provincial towns over the weekend, but government pledges yesterday appeared to calm public anxiety and it stabilised against the dollar at street exchange booths.

Mr Victor Yushchenko, the central bank governor, yesterday promised that the state was "not out to cheat the population" by restricting the amounts that could be exchanged. He warned that exchange kiosks which sold dollars above 193,000 karbovanets (some went as high as 300,000 at the weekend) might lose their licences.

The cabinet decree threatening companies with "liquidation" if they raise prices next month is meant to damp down inflationary pressures and reassure a sceptical population. One economist called it a "very strange, unenforceable measure. But it is popular."

Commercial banks were not convinced. The central bank yesterday spent \$7.5m intervening on the official currency auction to keep the karbovanets unchanged against the dollar from the last auction on Friday at 175,100.

"They've managed the karbovanets well, so there's no reason they won't do the same with the hryvna," said a western economist. "Handling the transition seems to be the key."

Ukraine took a calculated risk in abandoning plans for introducing the hryvna with International Monetary Fund support. The government

has been negotiating a \$1.5bn currency stabilisation fund, a new mechanism that acts like an insurance policy against wide exchange rate swings. The IMF had indicated willingness to extend the fund, but only towards the end of the year.

President Leonid Kuchma, who has been promising to introduce the hryvna for two years, decided to move on independence day. The karbovanets is seen as a symbol of Ukraine's recent hyperinflationary past - old notes became virtually worthless in 1993 when prices rose more than 80 per cent a month. The hryvna, unveiled at the central bank yesterday, bears images from the distant past. The watermarked notes, printed in Canada four years ago, feature the medieval ruler Yaroslav the Wise, the poet Taras Shevchenko and other national heroes.

The economic outlook also looks promising now, and might be less so in autumn when demands for state credits intensify and energy costs rise. There have been three consecutive months of inflation below 1 per cent and nearly a year of exchange rate stability. The central bank has strong reserves, estimated at \$3bn, to defend the new currency.

Many ideas for policy changes to accompany the new currency - such as devaluation of the currency, and a ceiling on how much money could be exchanged at full value to clamp down on "illegal" assets - were rejected, to the relief of western officials.

Mr Yushchenko said Ukraine would introduce a new foreign exchange policy only with IMF support. The most likely option, he said, would be a hard currency peg for the hryvna in the near future, an IMF condition on the stabilisation fund.

The actual business of exchanging new notes for old might prove a logistical nightmare for an inexperienced government. An estimated 376,000bn karbovanets are outside the distributed banking system and are to be exchanged for hryvna in just two weeks at 16,023 special kiosks.

Complaints that the short exchange period would be used to punish businesses in the shadow economy, which might not have time to dispose of their cash, yesterday prompted a currency reform commission promise to add another two weeks should some karbovanets holders be left out in the cold.

Lebed delivers peace plan but Yeltsin will not see him as infighting intensifies

Truce in Chechnya, war in Kremlin

By Chrystie Freeland
in Moscow

Russian and Chechen military commanders yesterday agreed a continued truce in the battered Chechen republic, but in Moscow the political infighting intensified as President Boris Yeltsin shut out his security chief for a second day.

Mr Alexander Lebed, head of the Security Council and the president's special envoy to Chechnya, delivered a "comprehensive peace plan" and an account of his week-end negotiations to the president's office.

But Mr Yeltsin continued to snub the man responsible for the most successful peace initiative since the conflict started, refusing to see him yesterday and failing to set an appointment for later.

The president's cold shoulder has emerged as the biggest obstacle to the peaceful settlement of the war in Chechnya which, after 20 months of fighting, now suddenly seems within reach.

Mr Yeltsin's aloof stance has triggered a fresh round of rumours about his health, the Chechen capital news magazine to speculate in a cover story: "Is the President Alive?". Other Russian analysts suspect Mr Yeltsin is adopting his time-honoured tactic of distancing himself



Russian soldiers leaving Grozny yesterday. The man's headband on the right reads: "We have been betrayed"

from subordinates on difficult missions.

The mixed messages from the Kremlin did not discourage Russian and Chechen military commanders yesterday from agreeing details of a ceasefire and Russian troop withdrawal at a meeting in a village near Grozny, the Chechen capital.

Under the deal, Russian forces are expected to withdraw from most districts of southern Chechnya by tomorrow, and joint Russian-Chechen units were to begin

patrolling the rubble-strewn capital yesterday evening.

"We gave each other our word that no provocations would become grounds for a breakdown of negotiations," said Mr Aslan Maskhadov, the Chechen chief-of-staff. "Somehow, in the end, we got around to really acting on creating peace."

Prolonging that peace is likely to depend on the political plans Mr Lebed forwarded to his president last night. The Russian news agency Interfax said they

included a proposal to determine the contested region's political status in a referendum to be held in five years.

The Chechens are thought to support independence overwhelmingly, but postponing the vote for five years might offer a face-saving way for the Kremlin to release its most rebellious subjects.

The plan has been fiercely attacked by some politicians in Moscow, an indication of the political dangers Mr Yeltsin could

face if he approves it.

At a Moscow press conference, Mr Dokuz Zayev, the Russian-installed nominal leader of Chechnya, yesterday said Mr Lebed had led a "coup d'état", accusing him of "handing power over to terrorists" and "sowing panic among Russian soldiers".

The acting chairman of the Russian parliament, Mr Sergei Baburin, also lashed out at the security chief, accusing him of "playing dangerous games with Chechnya's sovereignty".

Legacy of war lends support for gifted Germans

Peter Norman profiles a remarkable group of education charities on occasion of the 65th birthday celebrations of one of their most prominent alumni

Today is a big day for the Bundesbank president, Mr Hans Tietmeyer. Chancellor Helmut Kohl will be guest of honour and main speaker at a special reception in Frankfurt to mark the central banker's recent 65th birthday.

Mingling with the 300 guests from the worlds of politics, finance and central banking in Germany and abroad will be three former heads of the Cusanuswerk, an organisation set up by Roman Catholic bishops 40 years ago to support gifted young people through university.

Mr Tietmeyer is one of the most prominent alumni of the Cusanuswerk, a small but important part of the structure set up since the second world war to ensure that Germany never

falls back into dictatorship.

The Cusanuswerk is one of 10 charitable institutions representing the main political, religious and social groups which channel education ministry funds to highly motivated students of exceptional ability.

The aim is to create a body of people from different backgrounds who will support pluralistic democracy. "One of the lessons of Hitler's takeover of power in 1933 was that Germany's universities provided little resistance and many professors joined the Nazi party," explains Mrs Susanna Schmidt, a Cusanuswerk official.

This organisation remains the most important conduit of funds to gifted students, having provided nearly half the bursaries awarded since

the second world war.

The pluralist nature of the programme became more clearly established in the early years of the federal republic as this foundation was joined eventually by bodies belonging to the Protestant church, the trade union federation and the employers' federation, as well as the Cusanuswerk and five foundations allied to Germany's main political parties.

The government imposes no control over how they award their grants, totalling DM101m (\$88m) this year. The foundations close to the political parties make a point of saying that appli-

cants need not have party membership - although it is unlikely that a strong socialist would turn for support to the Friedrich Naumann Stiftung, which is allied to the market-oriented Free Demo-

cratic party.

The Cusanuswerk specifies that applicants should be Catholic but, according to Mrs Schmidt, "does not quibble on the catechism". It is far less restrictive than in its early days when only male students were offered support and they were expected to live in a state of "temporal celibacy".

Grants, which do not have to be repaid, are in line with the student loans provided

by the government and means-tested. Many applicants find the summer schools, with their promise of inter-disciplinary activities, and the opportunities for foreign travel provided by the schemes' operators are more valuable than the cash.

The 10 institutions have channelled support to more than 71,000 students since the foundation of the federal republic. This sounds impressive, but amounts to only 0.65 per cent of the country's entire student population in the period.

The small number of beneficiaries has triggered suggestions that the scheme

will create an elite, a sensitive issue given Germany's history.

Education ministry officials insist that bursaries are awarded on merit and there is no question of Germany moulding an institutional elite such as the cadre of highly qualified government servants produced by the grandes écoles in France.

The system certainly produced a variety of talents if the two best known Cusanuswerk scholars are any guide. A few years after the austere and famously hard-working Mr Tietmeyer was awarded his grant in 1967, the Cusanuswerk decided to give a bursary to a Mr Oskar Lafontaine, now the mar-

ritual and epicurean leader of Germany's opposition Social Democrat party.

Calls for patriotism increase in China

By Tony Walker in Beijing

China has called for a stronger show of patriotism, in a development which is seen to intensify consensus about the growth of a virulent Chinese nationalism hostile towards the west.

Outlook magazine, published by the official Xinhua news agency, went further than other Chinese publications in arguing for rejection of western pressures on issues such as human rights, arms proliferation and trade liberalisation.

"The west says that Chinese patriotism is something backward and should be despised," the magazine said in its latest edition. "We must see their vicious intentions and raise our patriotic flag high. We have done far from enough in advocating patriotism."

Publication of the commentary coincides with a runaway success for a book by young scholars, titled *China Can Say No*, which advocates resistance to western culture and products.

The official China Daily

appeared to endorse the book yesterday when it reported, under the headline "Best seller advises people to say no", that it criticised citizens' "blind faith" in foreign things. "The book advances the idea that China should follow its own path and say 'no' to what are considered to be irrational demands by western powers," China Daily said.

The apparent resurgence of Chinese nationalism is aimed mainly against the US and coincides with simmering disagreements between

Beijing and Washington over questions such as Taiwan and access to local markets.

The nationalist trend also reflects popular disquiet over inroads made by foreign brands and the expense of local makes. "Blind attachment" to foreign products is blamed for the parlous state of many Chinese state manufacturing enterprises.

The strengthening of patriotic sentiment is likely to affect business dealings between China and the west. It is certain to add, for the

time being, a layer of wariness to such dealings.

A foreign ministry spokesman sought to play down the impact of *China Can Say No*. "The book is just the work of a couple of young guys," he said. "It is natural that the ideas of some young Chinese intellectuals are reflected there."

But it is highly unlikely the controversial book, modelled on a Japanese work on a similar theme, would have been published without high-level approval. Chinese leaders, including the pre-

mier, Mr Li Peng, have made a virtue recently of banging the nationalist drum.

Beijing yesterday accused Washington of impeding peaceful reunification of China and Taiwan by selling advanced weapons to the island. A decision by the US to sell Stinger missiles and other weapons to Taiwan was "a kind of obstacle to peaceful reunification" of China and Taiwan, Mr Shen Guofang, foreign ministry spokesman, told the press. China regards Taiwan as a renegade province.

ASIA-PACIFIC NEWS DIGEST

Japanese plan for rail debt

Japan's transport ministry has drawn up a plan to dispose of debts incurred by Japanese National Railways (JNR). The state-run railway group which was broken up into seven companies in 1987.

The plan, which is to be sent to the finance ministry, will include the splitting of debts put at ¥253,000bn (US\$2.5bn) held by JNR Settlement, a special entity created to dispose of JNR assets.

The move comes amid rising criticism of government delays over the disposals.

The transport ministry had postponed plans to sell former station sites owned by JNR during the asset "bubble" of the late 1980s, fearful of fuelling speculation in the property market. Land prices have since plummeted. Under the plan, JNR Settlement will be dissolved next year and disposable assets will be shifted to a new fund. Of the ¥253,000bn debt, more than ¥200,000bn is expected to be paid for by the taxpayer.

Eniko Tazawa, Tokyo

Malaysian trade surplus soars

Malaysia yesterday announced a big trade surplus for June after a steep drop in imports. The surplus, which rose to M\$574.1m (US\$229m) from M\$288.6m in May, is likely to allay investors' fears over the current account deficit. Both imports and exports fell in June, with imports posting their biggest year-on-year drop in a decade by falling 11.6 per cent from their June 1995 level. For the first half this year, the total merchandise shortfall was M\$798.1m, against a deficit of M\$856m for the same period in 1995. Malaysia's current account deficit is a source of concern to the markets. Economists expect Malaysia's merchandise trade deficit this year to shrink from last year's M\$832.3bn perhaps to below the government's prediction of M\$7.1bn. The crucial element behind this trend is the global slowdown in demand for electronics goods, which account for 18.8 per cent of Malaysia's exports and require imports of many components.

James Kime, Kuala Lumpur

SE Asian groups in NZ deal

Two south-east Asian companies yesterday bought Works Corporation, the New Zealand government's building and architectural ministry, for NZ\$283.5m (US\$58m) in what is likely to be the last sale of a state-owned asset.

It comes a week after the sale of the Forestry Corporation for NZ\$2.1bn. The National government was committed to ensuring both sales were completed before general elections in early October. These are expected to open the way for a succession of coalition governments which are likely to be opposed to further sales.

Mr Philip Burton, state-owned enterprises minister, said the corporation was being split into two for sale. Downer and Co, a member of the Hong Kong-based Paul-Y ITC Construction Holdings group is to buy Works Civil Construction, and Malaysia-based Kinta Kelian is to buy Works Consultancy Services.

Terry Hall, Wellington

Economic woes may help chaebol leaders



Kim Woo-choong: permit to travel

Mr Kim Woo-choong, the Daewoo chairman, convicted for bribing former president Roh Tae-woo, was preparing to begin travelling today to China and Poland to oversee the company's projects as if it was business as usual.

Perhaps it is. Although legal restrictions normally keep Mr Kim in Korea until any appeal against his sentence is completed, the government has given him and the other businessmen convicted this week special approval to go abroad.

That has raised expectations that the business leaders, who also include the heads of the Dongah, Jinro and Hanbo groups, will either be given a presidential pardon or receive a suspended jail sentence on appeal.

It is not hard to find a reason for the government's sudden change of heart. Officials need the co-operation of conglomerates such as Daewoo, Korea's fourth biggest industrial group, to get the economy out of trouble.

Mr Kim Woo-choong may be hoping that the country's faltering economy will keep him out of jail. New evidence of economic woes appeared yesterday with the announcement that gross domestic product growth in the second quarter of 1996 was the slowest for three years at 6.7 per cent.

This has raised renewed concerns that economic growth for the year may slip below the official target of at least 7 per cent. Companies are cutting industrial investments because of sluggish exports of such important products as semiconductors, petrochemicals and steel.

There are other signs that the government in the last 24 hours has shifted from attacking big business to supporting it.

Tax authorities announced on Monday, after the court ruling against the businessmen, that they would conduct an investigation of companies involved in the bribery scandal. But officials yesterday suddenly suggested the investigation may be scaled back.

This week's events are an

extreme example of the government's schizophrenic relations with the leading conglomerates, or chaebol.

For the last decade or so, national leaders have alternatively condemned the chaebol as greedy and too powerful or praised them as the saviours of the Korean economy.

Although the rapid growth of the chaebol was the result of generous state support, politicians have often criticised the chaebol because of their monopolistic practices, most of whom do not work for the conglomerates. The chaebol are regarded by them as huge economic monsters that lay waste to small businesses.

The bureaucrats who normally have their way in the heavily state-influenced economy are also worried the chaebol are becoming too big to control.

When the chaebol were implicated last year in the bribery scandal involving Mr Roh, the public took delight in witnessing chaebol leaders being humiliated by filing

into the prosecutors' office for questioning.

But by early this year, President Kim Young-sam was winning and dining with chaebol leaders at a lavish dinner at the Blue House, the presidential mansion. He called for their support as the first signs of economic problems became apparent.

Then came another policy reversal in the spring as parliamentary elections approached, with the government promising to curb the chaebol's economic dominance.

The government's gyrations this week have understandably left analysts thoroughly confused.

But most observers believe that the tough prison sentences proposed by the Seoul district court were intended only to send a sharp warning to the chaebol leaders without risking an actual confrontation.

In this case, the bad economic news may be good news for the chaebol.

John Burton

Shenzhen reduces the cost of being a foreigner

By John Riddling in Hong Kong

From businessmen to back-packers, the cost of being foreign in Shenzhen is set to fall in Shenzhen, the southern boom-town at the forefront of China's economic reforms.

According to local officials, the city authorities are planning a policy shift so foreigners can pay local rates for accommodation, medical bills and tourist

sites, instead of higher "foreigner prices" charged across China.

This gap can be substantial. Shenzhen's Shangri-La Hotel offers rooms to foreigners at HK\$988 (US\$124.50) a night in its summer package. Local high-rollers get the same rooms for HK\$387. Foreign visitors to Beijing's Forbidden City pay Yn\$5 (\$10.50); local residents pay Yn\$0. The measures, provision-

ally scheduled to take effect at the start of next year, drew a welcome response in Hong Kong, long irritated by discriminatory pricing across the border. "This will be a boost for tourism," said Mrs Daisy Lai of China Travel. "It gives local image when tourists look around and see a price gap for themselves and for locals."

For foreigners, the hope is that Shenzhen's initiative may be repeated elsewhere.

Since it was declared a Special Economic Zone in 1980, the southern region has been a laboratory for economic experiments under reforms initiated by Deng Xiaoping, China's supreme leader.

Foreign investors have flocked to the zone, investing more than \$90m since 1979 and transforming the once sleepy farming community into an export powerhouse. More than 600 high-rise blocks (18 storeys or

more) have sprung up to house the expanding local and foreign business community.

International businessmen, in particular, are aware that the move towards national treatment which underpins the latest policy proposal has its dark side. Tax breaks for imports of capital equipment were ended on April 1 this year, reducing incentives for foreign investors.

"Treatment in the Special Economic Zones is not as special as it was a few years ago," one western manufacturing executive with a plant in Shenzhen says.

For foreign businessmen in the economic zone, some consolation might be drawn from the fact that the zone's splendid China attractor, the local tourist attractions which include a not-so-Great Wall of China and a pit-size Eiffel Tower.

SOUTH AFRICAN RESERVE BANK

Monetary policy in a complex macroeconomic environment

Extracts from address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-sixth Ordinary General Meeting of shareholders of the Bank on 27 August 1996

Continued but weaker economic expansion

The most important change in the South African macroeconomic scene over the past year was the substantial decline since February 1996 in the total net capital inflow from abroad. This sudden deceleration changed the overall balance of payments position, the foreign exchange market, the domestic financial situation, the local business mood as well as foreign investors' assessment of South Africa as an emerging market economy where sound high-yielding investments could be made.

The smaller net capital inflow from February 1996 onwards led to an overvaluation in the exchange market, and triggered a downward adjustment in the exchange rate of the rand which continued with intermittent pauses during the subsequent six months.

Not only the external economic relations of South Africa, but also domestic economic activity changed significantly from 1995 to the first half of 1996. Although the rate of overall real economic expansion has been retained at last year's level of about 3½ per cent, the primary sector of production, and particularly agriculture and non-gold mining, have since replaced manufacturing and the services sectors as the prime movers of the economy.

The growth in overall expenditure, however, continues to outpace growth in total production with the result that large imports of goods and services are required to maintain equilibrium between overall demand and supply. The current account of the balance of payments therefore remains in deficit and, in the light of the decline in the net capital inflow, it has now become a matter of concern from a macroeconomic policy point of view.

Two major structural deficiencies of the South African economy were again tellingly exposed by the developments of the past year. Firstly, gross domestic saving continued to decline to a level of only 16½ per cent of gross domestic product. This was clearly not sufficient to finance a non-inflationary way gross domestic investment equal to 19 per cent of gross domestic product, which in itself was still inadequate to sustain more rapid economic growth. The decline in the net inflow of foreign capital during the first half of 1996, which made less funds available for financing real investment, provided a strong reminder of the urgent need for a significant improvement in the propensity of the economy to save.

Secondly, despite the better economic growth performance over the past three years, very few additional job opportunities were created. In 1995 total employment in the formal non-agricultural sectors of the economy rose by only 0.6 per cent. Taking account of the growth in the labour force of more than 2½ per cent per annum, the total number of unemployed people increased by some 280 000 last year. Unemployment remains the most intractable economic problem of South Africa, and drastic measures are needed to raise the labour absorption capacity of the economy.

Foreign exchange market buffeted by exchange rate speculation. Triggered by an unfortunate combination of certain changes in the international financial markets, particularly in the United States of America, and several economic and political developments in South

Africa that were considered to be unfavourable, the market in foreign exchange displayed unexpected turmoil starting in February 1996. An initial depreciation in the weighted exchange rate of the rand of 4 per cent from 15 February 1996 up to the end of March 1996 could still be justified in terms of underlying economic fundamentals such as inflation differentials, purchasing power parity, a weakening of South Africa's competitiveness in the international markets, and the growing deficit in the current account of the balance of payments. The subsequent further depreciation of 11 per cent from the end of March 1996 up to the end of July, however, could hardly be justified in terms of these basic economic fundamentals. Unfounded rumours, speculative transactions and negative views of the South African socio-political situation, forced the exchange rate of the rand to a value which now surely does not reflect the true economic potential of the country.

The sudden slowdown in the total net capital inflow brought the underlying deficit in the current account of the balance of payments prominently to the fore as a policy priority. In the circumstances, the Reserve Bank had to provide the necessary foreign exchange from its foreign reserves so as to enable importers to continue to meet their commitments. The new situation now focuses the attention on the need to gradually reduce the current account deficit by reducing imports and/or increasing exports – a process that cannot be achieved overnight without extremely restrictive measures that will seriously disrupt the economic development process. During the necessary but slow transitional period it is expedient for the Reserve Bank to ease the stresses caused by the adjustment process by providing some assistance to the market.

Monetary expansion maintains strong momentum

The two most important aggregates for monetary policy purposes remain the M3 money supply and the total amount of bank credit extended to the private sector. Both these aggregates moved to relatively high rates of expansion during 1994 and prompted a more restrictive monetary policy stance. Throughout the greater part of 1995 and during the first half of 1996 the rate of increase in M3 fluctuated within a narrow band around the 15 per cent level, whereas the rate of increase in total bank credit extended to the private sector has been fluctuating around the 17 per cent per annum level for more than 20 months. Monetary policy has at best only succeeded in restraining the rates of increase in these aggregates, and prevented them from escalating to even higher levels.

For the present it is also relevant not to forget that the rate of inflation has declined dramatically during the past few years and equally important, that inflation has been below 10 per cent for three years in succession. Measured over twelve months, the rate of increase in the consumer price index declined to as low as 3.5 per cent in April 1996, before it rebounded again under the influence of the depreciation of the rand and rose to 7.1 per cent by July 1996. There are, of course, extended time lags between changes in monetary policy and in the money supply, and also between changes in the money supply and in prices. An economy can often be inflation prone in terms of expectations long before the actual inflationist starts. Monetary authorities must therefore always be on their guard, even in times when relatively low inflation is experienced.

The excessive rate of increase in bank credit extended to the private sector nevertheless remains a matter of concern, not only because of its effect on the money supply, but also because of the rising levels of indebtedness of private households. Accumulated household debt has now risen to more than 66 per cent of personal disposable income. The stage has been reached where the average South African household has to earmark almost six weeks' of its annual income for the sole purpose of servicing the cost of its debt.

It is essential that, in this volatile financial environment, financial markets remain flexible. Banking institutions in particular must be able to adjust their lending volumes and their interest rates at short notice in accordance with changes in the underlying flow of funds. In a rigid market situation the profitability of banks, and therefore their future capacity to grant loans, will be restrained.

Financial market developments reflect short-term volatility

Short-term developments in the financial markets have been reflecting the growing demand for credit as well as the volatility of international capital movements and exchange rate changes. The money market shortage increased from R2.2 billion at the end of July 1995 to R5.1 billion at the end of December 1995. The decline in the net foreign reserves since February 1996 has drained liquidity from the money market with the result that the shortage rose further to R11.0 billion at the end of April, only to recede to R6.6 billion at the end of July 1996. Reserve Bank accommodation can always provide temporary relief for acute liquidity shortages but, with the passage of time, banks must adjust their lending in accordance with the funds available in the market.

Participation by non-residents in the secondary bond market (illustrates the new volatility introduced into this market by the global financial crisis). After having been net buyers of bonds for a total value of R4.9 billion from July 1995 up to February 1996, non-residents were net sellers to the amount of R2.5 billion in March and April, only to become net buyers again to the amount of R2.6 billion in May and June 1996. In July, their interest in this market waned once more and their net purchases declined to only R0.7 billion.

Yields on long-term government bonds first declined from 16.40 per cent at the end of July 1995 to 13.64 per cent at the end of January 1996. During the subsequent six months, however, these rates moved up again to 16.01 per cent at the end of April and 15.74 per cent at the end of July 1996.

Fiscal policy remains on course for gradual adjustment

The deficit in the main Budget, excluding extraordinary transfers, was reduced as a percentage of gross domestic product from 6.0 per cent in the fiscal year 1992/93 to 5.6 per cent in the fiscal year 1994/95. A substantial carry-over of R6.4 billion of unspent funds at the end of the fiscal year 1995/96 contributed to the reduction in the actual deficit to 5.1 per cent in that year. For the fiscal year 1996/97, the deficit was estimated at 5.1 per cent of gross domestic product.

For monetary policy purposes it is of the utmost importance that the fiscal deficit and disavow by government be reduced further. This will alleviate the burden on monetary policy to maintain financial stability and thereby also allow for lower interest rates.

Monetary policy in a complex macroeconomic environment. From the foregoing it is clear that the present macroeconomic environment in South Africa is a complex and uncertain one, reflecting not only the major political and social reforms that have taken place in the country, but also the reintegration of South Africa into a changed global financial system that exposes the economy to greater volatility.

In last year's situation of an overall balance of payments surplus, the Reserve Bank had to buy foreign exchange against the creation of credit, which it can do of course in unlimited amounts, provided however that the surplus domestic liquidity created in the process is neutralised through other macroeconomic policy actions. In the present situation, with an overall balance of payments deficit, the Bank must supply foreign exchange against the rand but it is in this case restricted by the limited amount of foreign reserves at its disposal. The growing need to accelerate the restoration of greater equilibrium in the overall balance of payments through changes in the underlying fundamentals has therefore become self-evident.

The Reserve Bank more than any other institution is aware of the adverse implications of high interest rates for many sectors of the economy. As part of its policy of gradual adjustment the Bank has nevertheless over the past twelve months allowed interest rates to rise, not only in nominal terms, but even more so in real terms. Monetary policy has indeed effectively been tightened as inflation declined while nominal interest rates were not lowered. Given South Africa's complex macroeconomic situation, the choice for monetary policy, however, is not only between higher or lower interest rates, but rather between high interest rates now or high inflation in the future. In terms of its mandate, the Reserve Bank has no option but to protect the value of the currency if the Bank were to fail in this, its

prime responsibility, many of the objectives of the Reconstruction and Development Programme, as recently incorporated in the Government's Macro-economic Strategy for Growth, Employment and Redistribution, will not be attainable.

Monetary policy is consistently being pursued within the framework of the new Strategy for Growth, Employment and Redistribution, which is also fully supported by the Reserve Bank. The effective implementation of macroeconomic policies as outlined in the strategy, will indeed relieve monetary policy of much of the heavy burden that it must now carry to maintain overall financial stability. In particular, a successful reduction of the fiscal deficit to sustainable levels, together with a further lowering of import tariffs, an effective promotion of exports, an aggressive public sector asset restructuring programme and further improvements in the labour market aimed at achieving higher productivity, more competition and greater flexibility together with progress towards establishing a testing social accord to facilitate wage and price moderation, will reduce inflationary pressures in the economy, and lead to a lower, or even negative, rate of interest in the future.

Apart from adhering to monetary policies that are consistent with the directives of the strategy, the Bank will also continue to advise the Minister of Finance on a responsible programme to gradually phase out exchange controls. Good progress has already been made during the past two-and-a-half years on this front and further steps can be expected as and when justified by the successful implementation of the overall programme of economic restructuring.

Concluding remarks

The present situation reflects many of the traditional constraints experienced in the past when the South African economy was at a similar stage of the business cycle.

Firstly, after more than three years of economic expansion, the domestic economy is now losing some of its vigour as evidenced by a slowdown in the rate of expansion in manufacturing production as well as in the services sector, and also as could have been expected in most of the components of gross domestic expenditure.

Secondly, the overall balance of payments is in deficit because of large increases during the past two years in imports needed to supplement domestic production and to meet the requirements of large investments in both fixed capital and inventories, apart from the growing demand for consumer goods.

Thirdly, both bank credit extension and the money supply are increasing at excessive rates, and they lie behind the downward trend in the growth of real economic activity. This may reflect some distress borrowing, but may also be due to structural changes in the South African economy. Over the medium term, however, the rates of increase in the monetary aggregates must be reduced and must brought more in line with the growth rate in nominal gross domestic product.

Fourthly, interest rates remain under upward pressure, and are placing an increasing burden on government, businesses and private households.

The balance of payments deficit at its present level is obviously not sustainable, particularly after the substantial decline in the net capital inflow since February 1996. The challenge for macroeconomic policy at present is to judge whether the current slowdown in economic growth will be sufficient to correct the external imbalance, and whether the current monetary stance is restrictive enough to underpin this unavoidable adjustment process. In this assessment, account must also be taken of the expected effects of the depreciation of the rand on imports and exports, which will only work through with some considerable time lag.

The Reserve Bank's view is that, in the present situation, the Bank should provide some assistance to the market in foreign exchange by selling foreign currency from the official reserves, supplemented by available foreign credit facilities, if necessary. The Bank should also support the money market in asset banking institutions in bridging the period of transition to more stable conditions. In this way, the unavoidable but painful adjustment, will become more tolerable. At the same time, macroeconomic corrective market forces must not be impeded, but deliberately encouraged, where necessary, to restore balance of payments equilibrium with a minimum of disruption. Exporters have an important part to play in this adjustment process by taking advantage of the current favourable exchange rate.

The need for a downward adjustment in the rate of expansion in total economic activity will, of course, be reduced considerably if more long-term foreign investment funds can be attracted. The effective implementation of the Government's Macro-economic Strategy for Growth, Employment and Redistribution can make an important contribution towards creating a more friendly investment environment, for both foreign and South African investors. It also remains of crucial importance that the present wave of crime and violence be seen to be curbed, and that greater confidence be gained in our determination as well as ability to achieve our longer term economic goals in the interest of all the people of this country.

NEWS: INTERNATIONAL

Fall in rand will delay the ending of exchange controls

By Roger Matthews in Johannesburg

Mr Chris Stals, governor of South Africa's central bank, painted a sombre picture of the country's immediate economic prospects yesterday, and said the fall in the rand and loss of reserves would mean further delays in abolishing exchange controls.

"We will have to be much more cautious on exchange controls, and what our next steps should be," he said. "It does not mean it has been delayed entirely, but it has had an effect."

Mr Stals said the 20 per cent depreciation in the value of the rand against a basket of currencies since mid-February could not be justified by economic fundamentals. The rand closed yesterday in Johannesburg at R4.52 to the dollar, virtually unchanged on the day. "The currency's value surely does not reflect the true economic potential of the country," he said.

But, said Mr Stals, there was no painless way for



Stals: concern over growing current account deficit

South Africa to adjust to the abrupt fall in capital inflows this year. Net capital inflows had plummeted, amounting to only R2.7bn in the first six months, compared with a total of nearly R22bn in 1995. The inflows last year had concealed the underlying structural weaknesses in the economy, which were now becoming clearer, Mr Stals told the annual meeting of the Reserve Bank.

The worsening current

account deficit, which rose to R6.9bn in the first half compared with a full year deficit of R2.2bn in 1994, was now a matter of concern. While the rate of increase in money supply was leading the country "towards an untenable debt position where an unduly high share of current income, of both government and households, would be claimed for debt servicing," he said.

"This dangerous prospect holds a serious warning for the banking sector to apply greater caution in their lending operations. It also dictates the need to continue with a restrictive overall monetary policy."

Mr Stals acknowledged that he was under pressure from several sources to ease monetary policy, but in the interests of financial stability and longer-term sustainable growth, the Reserve Bank "must persist on its course of responsible monetary restraint".

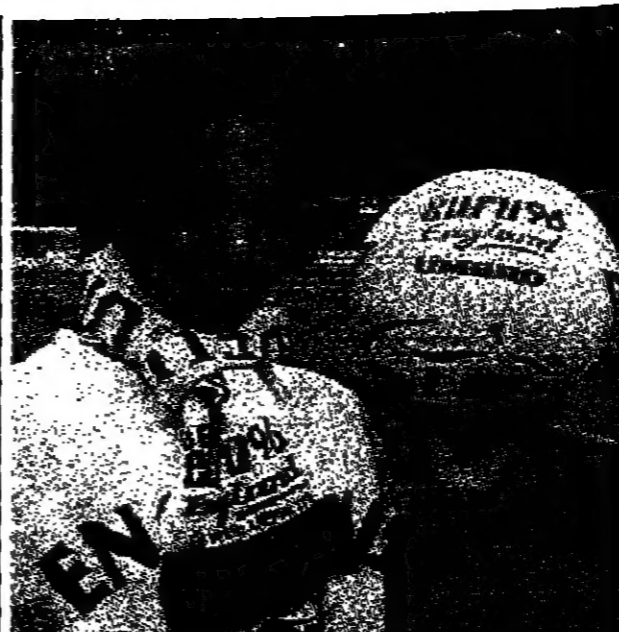
This was despite growing evidence that the economic growth rate was slowing. Mr

Stals said he still expected 3 per cent growth this year, but the main impetus was no longer manufacturing, which had declined by about 1 per cent in the first half, compared with 11 per cent growth in the comparable period last year.

The Reserve Bank was well aware of the adverse implications of high interest rates. "But South Africa, with its low savings and high consumption, cannot have low interest rates for any length of time without running the risk of persistently high inflation. The upward pressure on interest rates is further exacerbated by the present overall balance of payments deficit," said Mr Stals.

In this context it was vital for the government to reduce the budget deficit and implement policies set out in the macroeconomic framework document published in June.

Unemployment, however, which rose by 280,000 last year, remained the country's most intractable issue.



A youth displays the Euro '96 football. It was claimed souvenir balls were made by child labour in Pakistan

Fifa plans child labour code for football makers

By Graham Bowley

Fifa, the world's football governing body, has agreed in principle to an international code of conduct to stop child labour being used in the manufacture of footballs.

The decision follows an outcry during the Euro '96 football championship in England in June over allegations that authorised souvenir balls were being produced by child workers in Pakistan.

Fifa officials will meet representatives from union bodies and the International Labour Organisation in Zurich next week to discuss a code of practice for companies wishing to sell footballs under the Fifa name.

An estimated 50 per cent of the world's footballs are produced in Pakistan, mainly around the north-eastern city of Sialkot. The code will stipulate certain labour standards such as a minimum age for workers, working hours and conditions and union representation, which manufacturers

and subcontractors will be obliged to accept.

About 30 companies worldwide are expected to subscribe to the code.

Fifa said responsibility for policing the code to ensure it is implemented would fall to union bodies such as the International Confederation of Free Trade Unions.

This latest decision on footballs follows other successful high-profile campaigns by western charities and unions aimed at highlighting workers' conditions in industries such as toys, clothing and footwear, dominated by western multinationals.

A campaign launched by western charities drew consumer attention to large sports shoe companies such as Nike and Reebok, many of whose shoes are made in Asia.

Some of the toy, clothing and shoe companies have drawn up codes of conduct on working standards in response to pressure. But the issue of independent monitoring is proving contentious.

Bid to revive Mideast peace talks runs into Jerusalem row

By Avi Machlis in Jerusalem

The gulf between Palestinians and Israel's right-wing government appeared to be widening yesterday in spite of attempts by US, Egyptian and Israeli officials meeting in Paris to revive stalled Middle East peace talks.

Tensions flared in Jerusalem as Israel demolished a building under construction in the Arab section of the city and as plans were revealed for the expansion of a Jewish West Bank settlement, the most substantial move on settlement activity since the government of Prime Minister Benjamin Netanyahu came to power.

Meanwhile, negotiators were meeting in France to try to fend off the threatened cancellation of a Middle East economic conference set for November in Cairo. The meeting was called after President Hosni Mubarak of Egypt warned that the conference was unlikely to take place unless Israel started to meet its peace commitments to the Palestinians.

Under pressure from Mr Mubarak and from his own party Mr Netanyahu has since promised to renew the talks soon. But the latest developments in Jerusalem are bound to complicate these efforts.

Enraged Palestinians marched in Jerusalem and staged a two-hour general strike following the destruction of a building which they said was to house a community centre. The Jerusalem municipality which was responsible for the move said no permit had been given for the building.

Earlier, an Israeli newspaper, Ma'ariv, had reported plans to expand the West Bank settlement of Kiryat Sefer by building up to 1,800 housing units.

The defence ministry swiftly attributed responsibility for the plan to the previous leftwing administration of Mr Shimon Peres. "The building plan was approved in the past by the previous government and now it has been approved anew according to the government's decisions."

Both developments fuelled intense bitterness among Palestinians who felt they had taken concrete steps earlier in the week to defuse tensions in the disputed holy city. The self-rule Palestinian Authority based in the West Bank and Gaza Strip has said it is closing three offices in Arab East Jerusalem in a conciliatory gesture to Israeli demands to shut down Palestinian offices in the city.

Although the offices closed are minor institutions, Palestinians hoped this would pave the way for an overdue Israeli withdrawal from the West Bank town of Hebron, as agreed upon in interim peace accords.

Mr Netanyahu has not commented on the move. A spokesman said the prime minister's office is checking to see whether the offices have closed down.

The status of Arab East Jerusalem, one of the thorniest issues on the Israeli-Palestinian agenda, is to be decided in final status peace talks set to run to 1999 between Israel and the Palestinian Authority. Talks have not resumed since the election in May of the Israeli government.

"The Israelis are sending a very clear message to the Palestinians that we do not want peace with you," said Mr Ahmad Qorai (Abu Alaa), speaker of the Palestinian Legislative Council and one of the architects of the Israeli-Palestinian interim peace accords.

Zimbabwe civil service strike threatens hopes of IMF loan

By Tony Hawkins in Harare

Demonstrations by striking civil servants dragged on into their seventh day in Harare yesterday despite the announcement in the state-controlled media that the first 80 government employees who defied instructions to return to work had been dismissed.

Zimbabwe's civil servants claim they have been offered a 9 per cent pay award - 3 per cent on basic pay and a 6 per cent increase in allowances - well below the average for state companies, where increases of 30 per cent have been awarded to railway and electricity workers and 27

per cent to postal workers. Although government officials deny that the wage award is so low and insist that many civil servants are getting a 20 per cent award, estimates show a total increase in the civil service salaries and wages budget over the next year of only 11 per cent.

The week-long strike has hit hospitals and courts, customs and tax collection, and fire and rescue services at airports, and has led to some flights being cancelled. Air traffic controllers have threatened to join the strike.

The state media has gone to some lengths to play down the stoppage, with minimal reporting and few pictures of demonstrations.

The average real civil service wage has fallen more than 40 per cent since 1990, while the current round of wage awards in some 35 industries and activities averages 25 per cent. Inflation is running at 22 per cent and has averaged 28 per cent a year over the last five years.

Although the government has threatened to dismiss strikers, it is expected to have to negotiate a costly, face-saving compromise.

If, as seems inevitable, the government yields to the strikers, its chances of negotiating a new loan agreement with the International Monetary Fund would be even more

remote than at present.

A further 12 per cent award - seen as the bare minimum - would add another \$100m to the projected 1996-97 budget deficit of \$680m (8.5 per cent of GDP). The pay award would be equivalent to more than 1 per cent of GDP, lifting the budget deficit to a minimum of 9.5 per cent in 1996-97.

In the meantime, the government's case - heavily being helped by President Robert Mugabe himself. Returning from honeymoon in Cape Town on Monday, the president said: "We don't take kindly to illegal strikes. Already the public service is far too large and this may be an opportunity for us to reduce it."

NEWS: WORLD TRADE

Apec to encourage investors in power

By Nikki Tait in Sydney

Energy ministers from the 18 nations which make up the Asia-Pacific Economic Co-operation (Apec) forum are expected to encourage private investment in the region's power infrastructure.

The ministers, who start a two-day meeting in Sydney today, will consider recommendations from an Apec working party for more transparency in electricity investment permits and approvals procedures, and more efficient tendering procedures.

The moves come in the wake of concerns that the region may have difficulty in meeting its burgeoning energy requirements over the next 15 years.

Assuming economic growth within the region of an average 3.5 per cent a year, around \$1,300bn of investment in power-related infrastructure is thought to be essential by the year 2010. Industrialising economies - notably within Asia - are likely to require about three-quarters of this.

However, the increased financial pressures from donor nations on multilateral development agencies such as the World Bank and the Asian Development Bank mean that such institutions will probably be capable of financing only about 15 per cent of this.

A report commissioned by the Apec energy working group last year highlighted the need to encourage business sector investment, which currently accounts for under one-tenth of installed capacity.

The report also argued that a regional approach to the energy problem would be beneficial. Collective action, it suggested, could lead to direct cost-savings - for example, via the co-ordination of electricity generating equipment specifications and, possibly, to lowering investors' risk perceptions.

US bid to stem Helms-Burton damage

By Nancy Dunne

The Clinton administration is sending a top trade diplomat to Mexico, Canada and Europe to try to repair the damage to US relations with some of its closest allies by passage of the controversial Helms-Burton Act.

The legislation, signed by President Bill Clinton after Cuba shot down two unarmed aircraft manned by Cuban-Americans, penalises certain foreign investment in Cuba.

Mr Stuart Eizenstat, the commerce department trade undersecretary, has said he will not discuss the Act on his travels but will search

for new initiatives. He said he would consider sending humanitarian aid to Cuba as a means of "strengthening civil society" and could seek the adoption of voluntary business principles aimed at ensuring that future investment in Cuba promotes democracy.

Mr Clinton has waived for at least six months a provision which allows US companies and individuals to file suits in US courts against "traffickers" in appropriated properties. However, the president needs political cover if he is to waive the provision in the future, and this is what Mr Eizenstat will seek to construct.

A State Department spokesman said Mr Eizenstat had no "30-point plan" but was hoping for a "dialogue" and suggestions from the ministers he would meet. In Mexico today, he will meet Mr José Angel Gurría, foreign minister, and Mr Herman Blanco, trade and industry minister.

In Canada Mr Eizenstat will meet Mr Art Eggleton, the trade minister, and Mr Lloyd Axworthy, the foreign minister, on Friday. Ottawa has said it will co-operate in efforts to push for democracy in Cuba but will not back down in resisting the US legislation.

His schedule in Europe

has yet to be finalised.

However, even as Mr Eizenstat searches for solutions, Helms-Burton is moving relentlessly ahead. The law requires the president to bar executives from companies found to be "trafficking" in or profiting from property confiscated after Cuban president Fidel Castro came to power in 1959.

Letters went out last week to executives of Grupo Domos, a Mexican telecommunications company, warning them that they will be denied entry into the US in 45 days if they continue to use property in Cuba once owned by Americans.

The 45-day warning

imposed on seven executives from Sheritt International Corporation, a Canadian mining company, has expired.

David Owen in Paris adds: Mr Hervé de Charette, the French foreign minister, has indicated the European Union could lodge a formal complaint with the World Trade Organisation against the Helms-Burton law. Interviewed by Les Echos, the French business newspaper, Mr de Charette said consultations on the issue with the US had not come to anything, "so we will probably have to move to the contentious phase with the constitution of a panel".

Trinidad knocks on Nafta's door

The US would prefer tiny Caribbean nations to approach the trading club as a group

The tiny Caribbean republic of Trinidad and Tobago is hoping to join the giants of North America in the Nafta free trade bloc.

The nation of 1.2m people has told the US, Canada and Mexico - partners in the North American Free Trade Agreement that it wants to join after Chile negotiates membership.

Although the response from Washington has been lukewarm, Trinidad's government feels size does not matter and believes it has a strong case. Mr Basdeo Pandey, the prime minister, says: "The economies of the Nafta partners and that of Trinidad and Tobago are complementary, and our membership would demonstrate how small economies can benefit from this type of trade arrangement."

Government officials say the nation's future, and that of other Caribbean countries, lies with Nafta. The likely benefits include freedom of their external trade as existing trade arrangements with Canada, the European Union and the US may be phased out.

In a country of sharply polarised and personalised politics, this is an issue on which government and oppo-

sition find common ground. "The US is our main trading partner, and the North American countries which make up Nafta are our natural trading partners," says an official of the opposition People's National Movement.

The former PNM administration, defeated in polls a year ago, started preparations for seeking Nafta membership. In preparing its application, Trinidad and

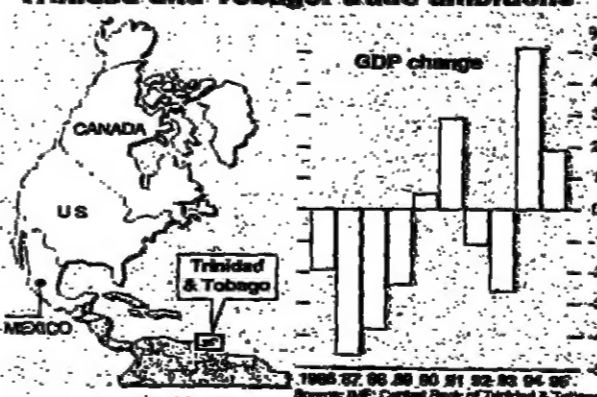
rochemicals, including a \$10m liquefied natural gas plant by European, US and local companies. The growth represents recovery from the disruption of four years ago when the government deregulated the economy and floated the currency.

The foreign minister, Mr Ralph Maraj, claims Mexico and Canada support Trinidad's bid. "With the tough economic policies which we have implemented, and the agreements we have signed, we have met all the conditions for membership of Nafta. We are ready for the big leap," he says.

This enthusiasm is not shared in some important places. The US government is not keen on dealing with applications for Nafta membership from several small countries in the region which might be encouraged if Trinidad and Tobago is accepted, according to US diplomats in the Caribbean.

They would prefer Caribbean nations to approach Nafta as a group such as the Caribbean Community (Caricom), a 14-member trade bloc. US officials contend also that Caribbean and Central American states are far from meeting basic criteria for Nafta membership, such as the reform of labour laws

Trinidad and Tobago trade ambitions



and environmental protection regulations.

Seeking Nafta membership will be too expensive for small economies, says Mr Simon Molina Duarte, a Venezuelan economist who is secretary general of the Association of Caribbean States, a grouping of 24 nations seeking increased trade in the region.

"There are few countries in the hemisphere which have the resources and the manpower to undertake joining Nafta. It cost Mexico \$500m in preparing to join Nafta. This involved working with 86 committees using a team of over 100 experts employed full time. Venezuela was also contemplating Nafta membership, but the government stopped when it was revealed how

much it had cost Mexico." Nafta membership for Trinidad and Tobago would also damage the integrity of Caricom, as some members would be hurt if they were also to open their markets too quickly, argue some regional governments. This also means Caricom could not seek Nafta membership soon.

But Mr Maraj is undeterred: "On the contrary, Trinidad and Tobago's entry to Nafta will allow us to buy more products from our Caricom partners and strengthen regional economies," he says. "Everyone will benefit, it will help us all to prepare for the hemisphere free trade area planned for 2005."

Canute James

WORLD TRADE NEWS DIGEST

Virgin in Swiss fares protest

Virgin Express, the low-cost carrier owned by Virgin of the UK, has shelved plans to begin services between Brussels and Geneva because the Swiss authorities will not allow it to charge one-way fares of SF115 (\$96) - 50 per cent lower than those available at present.

Mr Jonathan Ornstein, Virgin Express chief executive, said: "We have been denied the right to offer the kind of low fares that have been the trademark of this company. We felt it was unfair to our passengers to continue to plan commencement of service when it was apparent that we would be unable to reach an agreement with the Swiss authorities to allow us to fly. Thankfully, due to long overdue deregulation, this sort of situation could no longer come about within the boundaries of the EU."

The airline said it had no difficulty offering cut-price fares within the EU and would begin flying between Rome and Madrid and between Brussels and Copenhagen in September. The airline, called Euro Belgian Airlines until it was acquired by Virgin in April, already flies from Brussels to Barcelona, Madrid, Nice, Milan, Rome and Vienna.

Michael Shapiro, Aerospace Correspondent

Turkey-Russia pipeline deal

Turkey's state-owned pipeline operator Botas is to sign an agreement with Russia's Gazprom natural gas company in September to build a \$1.1bn pipeline to Turkey.

Mr Mustafa Murathan, Botas general manager, said the 1,160km pipeline would carry up to 16bn cubic metres (bcm) of gas a year, allowing Turkey to increase gas imports from Russia, its only supplier, to 30bcm by 2010 from 6bcm at present. Construction would begin in 1997. Turkey, Europe's fastest growing energy market, has recently signed a number of energy deals to save off impending power cuts. Turkey is to import electricity from Georgia, Bulgaria and Iran.

John Barham, Ankara

Sandvik in India steel venture

Sandvik, one of Europe's leading engineering groups, is to launch a joint venture company in India to produce seamless steel tube and piping. The Swedish company said the collaboration with Choksi Tube Company, the Indian tube manufacturer, would have annual sales of \$90m and capacity of 7,000 tonnes a year.

It marks the first step outside Europe and North America for Sandvik's tubing operations and is part of a growing focus on developing markets. The new company, to be called Sandvik Choksi, will be 51 per cent owned by Sandvik and 49 per cent by Choksi. The venture will be based on existing operations at Choksi's extruded metals division, into which Sandvik is to pump an unspecified amount of capital.

Greg McIner, Stockholm

BA clear to take over TAT

The European Commission has cleared plans by British Airways to buy control of a French air transport company, TAT European Airlines. TAT EA, which primarily serves routes within France, is jointly controlled by BA and TAT (France). BA recently announced it was exercising an option to buy the remaining 50.1 per cent of TAT EA.

The Commission said it had examined the impact of the new operation, particularly on routes between London and Paris as well as London and Lyons, and decided "not to oppose the concentration".

Caroline Southey, Brussels

Bid to revive
Middle East peace
talks runs into
Jerusalem row

Virgin in
Lancaster protest

1996 WORLD RALLY CHAMPIONSHIP



Subject to the official publication of the results by the FIA.

Swedish Rally
Overall Winner
Proven
on ice and snow.

Safari Rally
Overall Winner
Proven
in mud and dust.

Argentina Rally
Overall Winner
Proven
over loose stones and gravel.

Neste 1000 Lakes Rally
Overall Winner
Proven
over high-speed jumps and ruts.



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Mitsubishi technology:
*Tested and improved
on the toughest terrain in the world.*



CREATING TOGETHER

NEWS: THE AMERICAS

Clinton heads for celebratory Democratic convention

By Jurek Martin in Chicago and
Patti Waldmeir in Toledo

President Bill Clinton moved closer to the windy city of Chicago yesterday to claim the presidential nomination of his Democratic party, saying government could make a difference to ordinary lives, praising the trade union movement and promising renewed efforts to combat illiteracy, all as his campaign train

passed through Ohio and Michigan.

But it was his wife, Mrs Hillary Rodham Clinton, who was to hold centre stage later in the evening as the featured speaker at what was billed as the convention's "family night". She, too, was expected to emphasise the virtues of government initiatives to assist the less fortunate.

At a Chrysler Jeep factory in Toledo, Ohio, Mr Clinton said:

"There is a connection between what we do, or fail to do, in Washington and how you live here in Toledo." He noted that Jeep exports had doubled in the last four years, mostly as a result of trade agreements negotiated with Japan.

That connection, he went on, could be made more clear by people "telling personal stories" of how government assistance could work and where it was needed.

He specifically cited the case of Christopher Reeve, the actor paralysed in a riding accident, whose opening night convention address from his wheelchair moved many delegates to tears.

The convention itself, lacking real suspense and controversy, has been turned more into a celebration of what citizens and government can do together than the usual forum for political rhetoric and intense debates over policy

so characteristic of Democrats.

Dissent has not been suppressed, as pro-abortion choice Republicans thought it was in San Diego two weeks ago. The Rev Jesse Jackson, the civil rights veteran, and Mr Mario Cuomo, former New York governor, are promising to put on record, if briefly, their objections to the welfare reform bill signed by Mr Clinton last week.

But party managers have calculated, apparently correctly, that liberal Democrats are prepared to swallow their reservations over policy in the interests of re-electing Mr Clinton.

That attitude was also evident in Toledo. One speaker said the North American Free Trade Agreement with Mexico, pushed through by the administration in 1993, harmed US workers.

Mr Clinton's mild response was that the "global market is tough to operate in". But he then praised organised labour for rising to new challenges, as at the Jeep plant, and for lobbying so effectively for an increase in the federal minimum wage, also signed into law last week.

In seeking to establish an uplifting, if sentimental, tone, the Democrats are also hoping to stage a convention more appealing to the wider public than was the Republican version.

Hillary to step from shadow of Superman and Mrs Dole

The little old lady from Dayton, Ohio, flying home from Maine via Chicago, would not say if she was a Democrat or a Republican, but could hardly contain herself on the subject of Hillary Rodham Clinton.

"It's just not fair what they're doing to her. She's done nothing to deserve it, she might not be perfect, but who is? It's just not fair. I pity any woman who finds herself in the same position. They'll do it for Mrs Dole, too."

That is the message the Democrats would like to get over this week in Chicago and so, doubtless, would the First Lady herself - a featured

speaker at yesterday's convention session, dubbed "family night", and a very visible presence in her hometown all week.

"It takes courage these days to be in public service," she said in one of many Monday appearances. On opening night she sought to associate herself with the courage of others. She sat in the gallery next to the son of Jim Brady, the press secretary left partly paralysed by the assassin's bullet intended for President Ronald Reagan in 1981, and then with the wife of Christopher Reeve, the actor rendered quadriplegic by a riding accident two years ago, as both clearly moved delegates with

Jurek Martin on the task for a lower-profile First Lady

appeals for their respective causes.

Mr Brady, along with Sarah, his wife, has the 1994 handgun control act named after him. Mr Reeve, who made his name as Superman in the movies, wants more state aid and research for the severely disabled.

The actor, semi-prone in his high-technology wheelchair, invoked President Franklin Roosevelt ("a man who could barely lift himself from his wheelchair could lift this nation out of despair"). Mrs Clinton is not shy of comparing herself with FDR's wife, Eleanor,

the subject of equivalent, if less media-intensive, critical scrutiny half a century ago.

Her most obvious task last night was to match, though not mirror, the performance two weeks ago in San Diego by Mrs Liddy Dole, wife of the Republican nominee and, like Mrs Clinton, a woman of accomplishment independent of her husband.

Mrs Clinton, campaign aides said, would ascend to the podium from the floor, whereas Mrs Dole had moved in the opposite direction to give her chaty, talk-

show style address. Where the would-be First Lady extolled the virtues of her husband, the incumbent was expected to focus on what government could do to help society's less fortunate, especially its children.

That is consistent with the lower and less controversial profile Mrs Clinton has taken over much of the last two years following the failure of the national health care reform with which she was so closely associated. She now talks publicly much more of "my husband's administration" than her own agenda, generally reck-

oned to be more liberal than the president's.

While she remains very popular among activist Democratic women - and an object of sympathy to those like the little old lady from Dayton - there is no doubt that Mrs Clinton also excites strong antipathies, especially among men. Polls consistently show that no First Lady has ever been viewed with such mistrust and outright hostility.

But if the president's re-election campaign is flying high because of his big edge over Mr Dole among female voters, it may partly be

because independent-minded women, many with their own careers, identify with Mrs Clinton. Moderate Republicans, such as Mr Martin Fitzwater, the former White House press secretary, also had reservations about the degree of Hillary-bashing so prevalent in San Diego.

She also may serve the useful tactical function of drawing some fire away from Mr Clinton himself. Though still an influential voice in her husband's ear, she no longer behaves like the co-president she was held up to be in the 1992 campaign, thereby enabling him to appear more in command - and, he not, she is, up for re-election.

The potential big negative remains her alleged complicity in Whitewater matters and in her presumed leading role in firing the White House travel office staff in 1993. But Republican hopes that she might be indicted, perhaps for obstruction of justice, before the election are now more faint.

Here, at least, she is among friends and admirers. As Ms Geraldine Ferraro, in 1984 the first woman on a national party ticket, put it: "What the Republicans have to understand is that when they're beating up on Hillary they're beating up on all of us." Somewhere on that sentiment found an approving echo.

Fugitive financier jailed for 13 years in Cuba

By Pascal Fletcher
in Havana

Mr Robert Vesco, the fugitive US-born financier, has been jailed for 13 years for economic crimes by Cuba, the island that sheltered him from US justice for 14 years.

Mr Vesco, now 60, grey-haired and in ill health after nearly 25 years on the run from US embezzlement and drug-trafficking charges, was jailed for his part in a biotechnology project, which one close friend said was intended to have been his "swan song" before a quiet retirement in Cuba. He and his Cuban wife, Mrs Lidia Alfonso, who received a nine-year term, can appeal against the sentences.

Mr Vesco gained notoriety after fleeing the US in the early 1970s to escape charges that he had swindled \$324m from his old company, Inves-

tors Overseas Services, a Swiss-based Canadian mutual fund. He had allegedly also tried to halt the US investigation against him by giving \$300,000 in illegal campaign contributions to President Richard Nixon's re-election effort.

His reputation as one of the world's best known financial fugitives grew as he stayed one step ahead of the US law, living in Costa Rica, the Bahamas and then Cuba.

Set against the background of the tense political stand-off between the US and communist-ruled Cuba, Mr Vesco's last attempted scam involved an attempt to develop for sale abroad an alleged "miracle drug", known as TX, which its backers claimed could help cure cancer and AIDS.

During his three-day trial in Havana early this month Mr Vesco testified he had

learned about the plant-based TX drug invented by a US doctor from his friend Mr Donald Nixon Jr, nephew of the late President Nixon. Wary of the time, money and stringent Food and Drug Administration approval required for biotechnology projects in the US, the two decided to turn to Cuba, whose government has invested millions of dollars in a bid to create a pharmaceutical export industry.

According to the prosecution, Mr Vesco misled potential investors from Italy, Switzerland and Colombia into believing that Cuba was already producing the TX drug, persuading them to part with several hundred thousand dollars, some of which found its way into his Cuban bank account.

But many observers are asking why Mr Vesco and his wife were the only ones in the dock. They argue it is



Vesco arrives at court for his trial earlier this month.

difficult to believe that Mr Vesco could have had such freedom to operate in Cuba's secretive biotechnology sector unless he enjoyed power-

ful high-level backing. Mr Vesco's trial testimony said he had never met Mr Fidel Castro but not completely dispel these questions.

Hashimoto visit boosts Japan's links with Peru

By Sally Bowen in Lima

Mr Ryutaro Hashimoto made the first visit by a Japanese premier to Peru since 1982 yesterday in a sign of the thawing of bilateral relations that have developed since the election of Mr Alberto Fujimori in 1990.

Mr Hashimoto yesterday offered \$600m in credits for a hydro-electric plant, rural road-building and a sewage project. Last year, Japan provided \$300m in credits for Peru.

Technical assistance, supply of agricultural and road-building equipment and support for school construction have been priorities. Japan's Eximbank is providing a \$155m loan for the San Gaban hydro-electric project in the department of Puno. Direct investment by cautious Japanese businessmen, however, has been almost non-existent.

Peru has tried to build on its links with Japan and China (which both have large emigrant communities in Peru) by stressing its strategic geographical position as a "gateway" between Asia and Latin America. It is on the waiting list to join the 18-nation Asia Pacific Economic Co-operation Forum (Apec) and is participating in two working groups, on tourism and fishing, in the hope of advancing its candidacy.

Peru is the only other country in the world to be governed by a "nikkei" (someone of Japanese origin) and Peru has the second largest Japanese colony (around 100,000) in the continent after Brazil.

Opinion polls consistently show that Japan is the country Peruvians most trust and admire.

Widely respected for their honesty and hard work

(characteristics which Mr Fujimori effectively stressed in his 1990 election campaign), the Japanese traditionally maintained a low profile in Peru, building up important businesses but playing little part in public, far less political, life.

Many in the Japanese emigrant community viewed the election of Mr Fujimori with alarm, fearing that failure in office would damage its image. In fact, his notable successes in normalising international financial relations, curbing inflation and defeating terrorism have served to enhance still further the image of Japan in Peru.

Now Peru's "nikkei" have overcome their aversion to public office: virtually every government entity, public company and privatisation committee boasts at least one senior representative with a Japanese surname.



If the rainforests are being destroyed at the rate of thousands of acres a minute, how can planting just a handful of seedlings make a difference?

A WWF - World Wide Fund For Nature tree nursery addresses some of the problems facing people that can force them to chop down trees.

Where hunger or poverty is the underlying cause of deforestation, we can provide fruit trees.

The villagers of Miguanga, Zaire, for example, eat papaya and mangoes from WWF trees. And rather than having to sell timber to buy other food, they can now sell the surplus fruit their nursery produces.

Where trees are chopped down for firewood, WWF and the local people can protect them by planting fast-growing varieties to form a renewable fuel source.

This is particularly valuable in the Impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The Markhamia leuca trees planted by WWF and local villages can be harvested within five or six years of planting.

Where trees are chopped down to be used for construction, as in Panama and Pakistan, we supply other species that are fast-growing and easily replaced.

These tree nurseries are just part of the work we do with the people of the tropical forests.

WWF sponsors students from developing countries on an agroforestry course at UPAZ University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods. New tracts of tropical forest would then have to be cleared every two or three years.

This unnecessary destruction can be prevented by combining modern techniques with traditional practices so that the same plot of land can be used to produce crops over and over again.

In La Planada, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

WWF is calling for the rate of deforestation in the tropics to be halved by 1995, and for there to be no net deforestation by the end of the century.

Write to the Membership Officer at the address below to find out how you can help us ensure that this generation does not continue to steal nature's capital from the next. It could be with a donation, or, appropriately enough, a legacy.

WWF World Wide Fund For Nature
Swiss World Wildlife Fund

International Secretariat, 1196 Gland, Switzerland.

FOR THE SAKE OF THE CHILDREN
WE GAVE THEM A NURSERY.

Mexico accuses leftist guerrillas of kidnappings

By Leslie Crawford
in Mexico City

Mr Antonio Lozano, the Mexican attorney-general, yesterday accused leftist guerrilla groups of orchestrating the abduction of prominent businessmen such as Mr Mamoru Kono, the Japanese Sanyo executive kidnapped this month in the border town of Tijuana.

This is the first time a senior law enforcement officer has linked guerrilla groups to the surge of kidnappings in Mexico. Mr Lozano said evidence pointed to the involvement of the Popular Revolutionary Army (EPR), a shadowy group which made its first public appearance in June in the hills of Guerrero, on Mexico's Pacific coast.

He said his office was also investigating the suspected role of Mr Alfredo Harp Helú, one of Mexico's richest bankers, in 1994.

Mr Harp Helú was released after three months in captivity for a ransom of close to \$30m. Mr Kono was freed last week for a reported ransom of \$2m, paid the day before Mr Ryutaro Hashimoto, Japanese prime minister, arrived in Mexico on a state visit.

Mr Lozano is under intense pressure to find Mr Kono's abductors in order to reassure the foreign business community it is safe to invest in Mexico. He said in an interview that the evidence linking the guerrilla group to the kidnappings was not conclusive, and that investigations were continuing.

Mr Lozano occupies the hottest seat in Mexican politics after the president. He has also been charged with the task of unravelling the most shocking political assassination of Mexico's recent history: that of Mr Luis Donaldo Colosio, the presidential candidate of the

ruling Institutional Revolutionary party, murdered while campaigning in Tijuana in March 1994.

At the same time, Mr Lozano is attempting to purge the police force of corruption and tie to drug traffickers, and he is doing all this as the only member of the opposition National Action party to serve in President Ernesto Zedillo's cabinet.

Mr Lozano said yesterday the investigation into Mr Colosio's murder had reached a "very delicate stage" after a double setback: the acquittal of the alleged second gunman in the murder, and the subsequent dismissal of Mr Pablo Chapa Bezanilla, the special prosecutor in the Colosio case and one of Mr Lozano's most trusted lieutenants.

Mr Chapa Bezanilla was the third special prosecutor to be dismissed by presidential decree after failing to unravel a case which many Mexicans believe is insoluble.

In his fight against corruption, Mr Lozano earlier this month sacked 800 officers, a fifth of the federal police force, in the most sweeping purge of a top law enforcement agency ever carried out in Mexico.

Mr Lozano said the men were sacked for not meeting standards of "professionalism, honour, efficiency and respect for the law". However, he acknowledged the purge would not automatically rid the police force of corruption. He was also aware the mass sackings might feed a new crime wave in Mexico.

Mr Lozano said he would rather fight criminals "out in the open", rather than within his own institution. He said his office was working on new identification badges for his police force, and a computerised data bank which would track the professional history of all police officers.

AMERICAN NEWS DIGEST

US confidence at six-year high

Consumer confidence in the US hit a six-year high in August. The US Conference Board's Confidence Index rose 2.4 points to a high of 109.4 this month.

This sustained growth, which followed an increase of seven points in July, was a surprise to many American economists, who had expected the index to decline to about 105 points.

The rise jolted the US Treasury bond market, driving up the yield on the benchmark 30-year bond to just under the vital 7 per cent threshold. However, the bond market recovered swiftly, and the stock market was little affected.

Optimism about current business conditions climbed two points, and consumer's expectations for the coming six months rose by three points.

Nearly 29 per cent of those surveyed described current business conditions as "good", an increase from less than 28 per cent in July. Only 7.4 per cent of consumers expected conditions to deteriorate, down from 8.2 per cent in July.

Stella Burch, Washington

BB rating for El Salvador

El Salvador has become the first Central American country to be awarded a credit rating by one of the bigger international rating agencies for more than two decades, signalling a possible revival of investor interest in a region wracked by civil war in the 1980s. Standard & Poor's (S&P), the international credit rating agency, has given El Salvador a BB rating on its long-term debt - its second highest non-investment grade rating - with a positive outlook.

It argued: "Broad-based popular support for the economic reform programme, underpinned by the smooth transition to democracy after a 12-year civil war, augurs well for political stability."

This grade in effect restricts the market for any bonds issued by the country to a relatively specialised group of investors. However, it is higher than that enjoyed by a number of other emerging market governments including Argentina and Brazil.

S&P said its decision was influenced by El Salvador's recent record of "prudent fiscal policies" and modest debt levels. The country's public-sector deficits have amounted to an average 3 per cent of GDP since 1992. Its net external debt is estimated at 36 per cent of export earnings, well below levels in other countries in the same BB category.

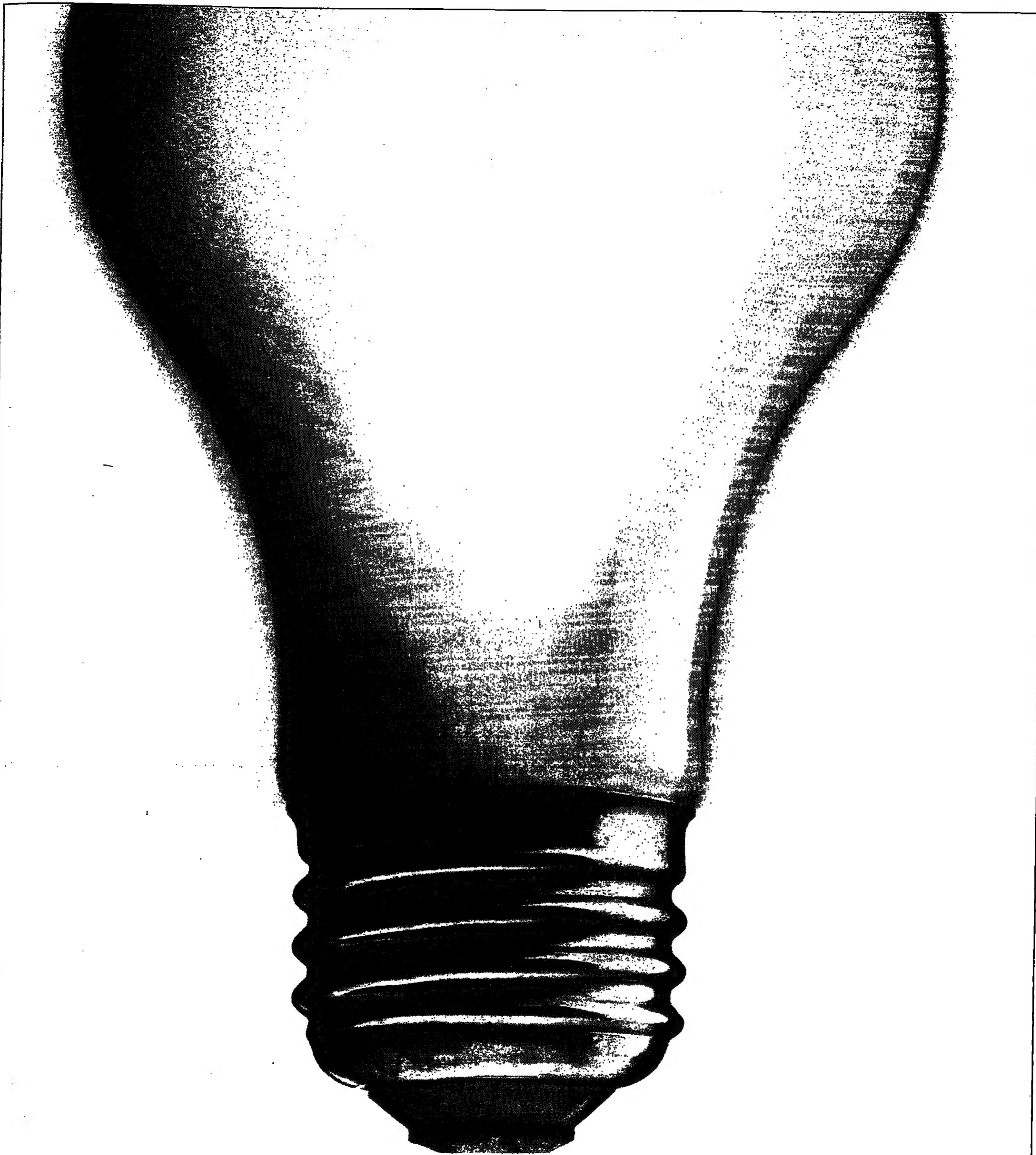
Richard Lapper, Capital Markets Editor

Argentine ex-dictator dies

Alejandro Lanusse, dictator of Argentina between 1971 and 1973, died on Monday aged 78. Lanusse took over the leadership of the country after five years of dictatorship. But unlike his two predecessors, Juan Carlos Onganía and Marcelo Levingston, who ruled Argentina with an iron hand, Lanusse steered the country toward democracy.

He allowed Juan Domingo Perón, Argentina's famed populist leader, to return to Argentina after 17 years of forced exile. He stood as a candidate in the general elections in March 1973, but the Peronists, led by Hector Campora and Vicente Solano Lima, returned to power and he never returned to public office.

Reuters, Buenos Aires



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NEWS: UK

US bank's choice seen as vote of confidence in Canary Wharf development

Citibank announces new HQ site

By Simon London, Property Correspondent

Citibank of the US has chosen Canary Wharf in London's Docklands district as the site for a planned UK headquarters expected to cost £200m to £300m (\$310m to \$465m).

The new office block will be the first large building to be built at Canary Wharf since the development went into administration in 1992 against a background of falling rents and property values.

Citibank plans a 500,000 sq ft block which will house about 2,500 corporate banking and capital markets employees. Detailed negotiations with Canary Wharf are expected to be completed by the end of October and the new building should be ready for occupation within three years.

The prospect of renewed construction activity in Docklands underscores the recovery now under way in the central London property market following the slump of the early 1990s.

Property development in the City of London, the traditional home of the UK financial services industry, is already at a five-year high.

The US bank has hired Sir Norman Foster, one of the UK's leading architects, to design the building. Sir Norman is also currently designing a proposed 1,000 ft skyscraper - the tallest in Europe - for a City of London site owned by Kvaerner, the Norwegian group. Citibank's move will be interpreted as a vote of confidence in Canary Wharf

following its acquisition last year by a consortium led by Mr Paul Reichmann, the Canadian who masterminded its development in the 1980s.

Only a third of the planned 13m sq ft of office space had been built when Canary Wharf collapsed financially four years ago.

The original masterplan envisaged a number of large blocks to the rear of the present buildings, including two office towers to stand alongside 1 Cabot Square, which is currently the

UK's tallest skyscraper. Canary Wharf generally offers tenants cheaper rents than other parts of central London because land and construction costs are lower.

Transport links with the rest of the capital have improved dramatically since the project went into administration.

Canary Wharf's last big success was in 1994 when it persuaded BZW, the investment banking arm of Barclays Bank, to take nearly 800,000 sq ft of space in Docklands.

Barings treasurer fined and barred

By Nicholas Denton in London

Mr Tony Hawes, the Barings executive in charge of funding Mr Nick Leeson's disastrous derivatives trading, has been barred from working in the City of London for three years, the Securities and Futures Authority said yesterday.

Mr Hawes was also fined \$10,000 (£15,500).

The UK securities industry regulator, which has been criticised over its disciplinary procedures since the collapse of Barings in February 1995, has now taken action against five former employees of the failed merchant bank.

But the SFA could not find grounds to take action against Mr Peter Baring and Mr Andrew Tuckey, chairman and deputy chairman of Barings group at the time of the bank's collapse.

The SFA is set next week to publish a consultation document which will propose that senior executives in the City of London take explicit responsibility for ensuring, for example, that internal controls are satisfactory.

In yesterday's announcement, the SFA said Mr Hawes, former group treasurer, failed to understand, control and reconcile the provision of money which fuelled Barings' derivatives trading in Singapore.

By the time of the collapse, Barings had provided more than £300m in "top-up" funding for Mr Leeson. The SFA, which Mr Hawes believed were being lent to clients, were in fact covering Mr Leeson's losses.

The SFA said Mr Hawes had failed to act with "due skill, care and diligence".

Mr Hawes, who now works as a banking consultant, said: "I accepted things too easily; I should have been much more questioning. But at every stage I did what I thought was correct."

UK NEWS DIGEST

Currency group sues for \$1bn

Chequepoint, the currency changing and money transfer group, has filed a suit in a US federal court claiming damages about \$1bn for allegedly unfair competitive practices by Barclays Bank and National Westminster Bank of the UK. The suit accuses the two banks of conspiracy in UK. The suit accuses the two banks of conspiracy in UK. The suit accuses the two banks of conspiracy in UK.

BROADCASTING

BBC settles row with Saudis

The BBC has quietly settled a bitter row with Orbit Communications over the abrupt closure of the BBC's Arabic television news service for the Middle East in April. It seemed possible at one stage that each side might sue the other for breach of contract.

The BBC has now, it is believed, accepted several million pounds from Orbit consisting of money owed to the corporation and the cost of closing the service with the loss of 100 jobs. Mr Bob Phillips, deputy director general of the BBC, warned on a number of occasions that if there was any editorial interference with the service, funded by Saudi money, the BBC had the right "to pull the plug". Earlier this year the BBC noticed that some news items from London were not being broadcast. The difficulties came to a head in April when the BBC decided to include in the Arabic service an edition of *Panorama* which dealt with the Saudi judicial system.

PENAL SYSTEM

Prisons chief in emergency talks

Mr Michael Howard, home secretary, yesterday met Mr Richard Tilt, director-general of the Prison Service, over the release of prisoners serving consecutive sentences. Mr Tilt had cut short a holiday to return to Britain.

Last week the Prison Service concluded that it had been miscalculating sentences for 30 years, which meant 4,000 inmates would have to be released early - opening the way for multi-million pound compensation claims.

On Friday, Mr Howard halted the releases, having received advice from a leading lawyer confirming the original interpretation. He blamed the Prison Service for failing to keep him informed, but he conceded that ministers had been aware for some months that there was a potential problem.

MANUFACTURING

Shimadzu shifts production

Shimadzu of Japan, one of the world's biggest makers of scientific instruments, is shifting some production from its Japanese factories to the UK. Shimadzu's UK subsidiary, Kratos, has annual sales of about £11.5m (\$17.82). Some 95 per cent of production is exported. The switch in production should lead to extra sales of up to £1m a year.

Fleeing Iraqis head for big London community

By Rousa Khatir and Jimmy Burns in London

As the hub of Middle Eastern opposition groups and home to the largest Iraqi community in Europe, London is a natural destination for Iraqis seeking to flee from the ruthless regime of Iraqi President Saddam Hussein.

Iraqi exiles said yesterday they believed this was the main reason for the Iraqi hijackers' diversion to Stansted airport - 80 miles north-east of the UK capital - of a Sudanese airliner en route from Khartoum to Amman in Jordan.

The seven hijackers arrested were Iraqi nationals presumed to be seeking asylum in the UK, home to an estimated 30,000 Iraqis. According to the Iraqi National Congress, the London-based opposition group, an Iraqi diplomat based in Khartoum was on board the Sudanese Airbus. It was not known whether he had taken part in the hijacking. Sources in the UK said low-ranking Iraqi military officers who had been training in Sudan were involved.

But Iraqi exiles in London played down the importance of any defections by officials. On landing at Stansted, the hijackers did not ask to

see the Iraqi National Congress but wanted to include in negotiations Mr Saddam Sada, a former member of the executive committee of the Iraqi welfare organisation, an Iraqi welfare organisation. Mr Sada is believed to come from the southern town of Basra. This suggests he is a member of the Shia community, the biggest religious group in Iraq but one which has been excluded from top posts in the regime.

The Iraqi Community Association is one of several groups claiming to represent the Iraqi exile and immigrant community. Since January 1992 it has been partly funded with an annual grant of £20,000 (\$31,000) from local authorities in London. The association describes itself as "the only organisation... actively working on behalf of all members of the Iraqi community, regardless of sex, religion, ethnic origin or political affiliation".

The defection of diplomats and army officers - if confirmed to be part of the group - should have little bearing on the viability of Mr Saddam's regime.

That some have resorted to hijacking to escape Iraq testifies to the desperation of the Iraqi people. This is probably why, observers

suggested, the hijackers were being treated more gently than other terrorists by the UK authorities.

Economically crippled by United Nations sanctions imposed after the 1990-91 Gulf war and oppressed by Mr Saddam's rule, many Iraqis consider that the only promise of a better future lies outside Iraq. An estimated 20 per cent of Iraqis now live in extreme poverty. Few countries, however, are willing to issue visas for Iraqi nationals, as most are not likely to return home. According to exiles, the only countries which Iraqis can enter without visas are Libya, Sudan and Jordan.

Because there are no international flights out of Baghdad, Iraqis drive to Amman to fly to their destination, and many stay there. But the deterioration in Jordan-Iraq relations has led to a tightening up of residency permission for Iraqis. This month, Jordan accused Iraq of fomenting violent protest against bread price rises.

Mrs Emma Nicholson, the Liberal Democrat spokeswoman on human rights, who chairs the parliamentary committee on Iraq, urged that they be granted asylum. "I hope we give them sanctuary. If we don't they are dead men."

US move may set new hurdle for Lloyd's

By Christopher Parkes in Los Angeles

Lloyd's of London could face more damaging legal confrontations in the US following a change of heart by Mr Dennis Vacco, the influential attorney-general of New York State.

In a letter to US investors in the insurance market, Mr Vacco appeared to prepare the ground for his withdrawal from a landmark settlement, signed in July, under which 38 states agreed to scrap securities fraud suits against the insurance market.

His decision highlighted the mounting unease in the US over the terms offered to Lloyd's \$3.5bn (\$4.56bn) restructuring plan, due for approval this week. Names are individuals whose assets have traditionally supported the insurance market.

Although no states have yet reneged on the July deal, Colorado is planning an action charging Lloyd's with consumer fraud. In a separate development on Monday, New York state insurance regulators said they were prepared to freeze

\$12bn of Lloyd's assets held by Citibank if necessary.

"We are in a new ball game," said Mr Kenneth Chate, a leading official of the American Names Association, which represents 1,000 Names and which has led the campaign against the terms of the Lloyd's recovery plan. He claimed ANA's aim was not to derail Lloyd's recovery plan but to force the market to provide enough details to allow Names to make informed decisions.

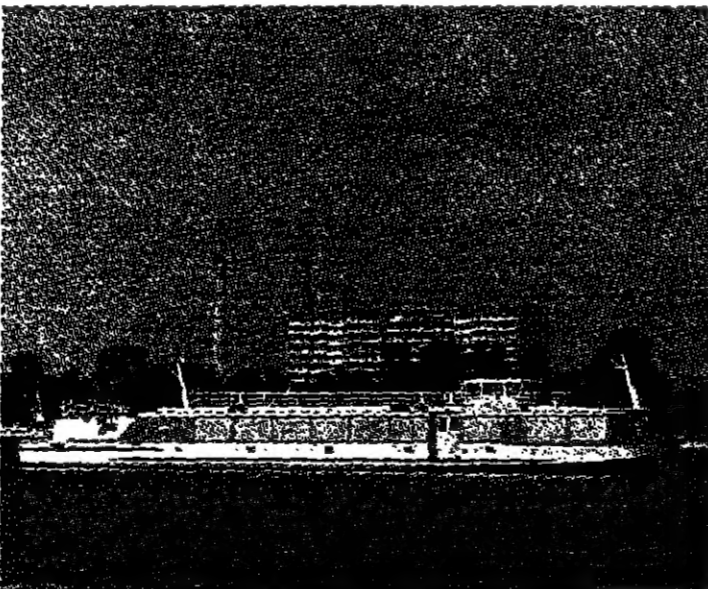
Mr Vacco's letter, sent before yesterday's appeal, said: "In the light of... changed circumstances and the prospect of future financial disclosures of Lloyd's, my agreement to the [settlement] proposal may be affected by new information disclosed."

The settlement was engineered under the leadership of Mr Philip Feigin, Colorado securities commissioner. Although he persuaded Lloyd's to reduce US Names' liabilities by more than 20 per cent in return for dropping the fraud suits, he was later denounced by the ANA, which said he had been hoodwinked.

BUSINESS AND THE ENVIRONMENT



Closing eastern German brown coal mines (left) has entailed sophisticated engineering that controls levels of water (right) and prevents flooding



From coal to sheep

Judy Dempsey on moves to clean up east Germany's old mines

In the coming weeks, before the autumn chill sets in, teams of chimney sweepers will visit thousands of homes throughout Germany. But it is in the cities and towns of eastern Germany that they will be most active.

In spite of the gradual switch by households from brown coal, also known as lignite, to gas as a source of energy and heating, there is still more than enough work for a profession immediately recognisable by the round white cotton hats, black uniforms and bicycles laden with long spiky brushes.

But outside the cities of Leipzig or Dresden, Potsdam or Cottbus, there is another clean-up under way: the reclamation of eastern Germany's giant brown coal open-cast mines spread over an area of 88,000ha. By the time the work is complete in 2002, the German government, which owns this land, will have spent more than DM16bn (\$8.8bn) in transforming what was once a dusty, dark-brown landscape to green leisure parks and artificial lakes.

The decision to embark on this ambitious programme was made in 1992, two years after reunification. The government agreed to keep some of east Germany's brown coal fields operating, largely for political reasons.

Before 1990, more than 150,000 miners worked in the Laubag and Mibrag mines, which straddle the

east German states of Brandenburg and Saxony-Anhalt and which supplied more than 85 per cent of their output to industry.

There was concern that if all the mines were closed, the rate of unemployment, currently an average 15.5 per cent in the five eastern states, would rise. In addition, households were still using brown coal. The gradual switch to gas had not yet taken place.

The Laubag and Mibrag mines, which in 1991 had been placed under the control of the Treuhand, the agency charged with privatising east German industry, were sold. A consortium led by Rheinbraun, the brown coal subsidiary of RWE, Germany's largest utility group, bought Laubag. NRC and Morrison Knudsen of the US and Britain's PowerGen bought Mibrag.

Mines not being used by either company were to be included in the government's closure programme and subsequently placed under the control of Lausitzer and Mitteldeutsche Bergbau-Verwaltungsgesellschaft (LMBV), the company responsible for closing, cleaning up and reclamation of the brown coal mines.

Closing the mines has entailed more than filling in land. It has required a sophisticated engineering plan specifically designed to prevent the surrounding areas from flooding.

When brown coal is mined, water has to be continuously pumped away to reduce the water levels in the lignite. Once the mining stops, the LMBV has had to find ways to continue to pump the water and drain it into specially constructed lakes. LMBV engineers reckon it will take 50 years for the water to stabilise and find its natural level, one of the reasons why they are so concerned that the current DM1.5bn of expenditure set aside each year for the clean-up will be maintained. "Managing the water is one of the most crucial aspects of our work," says Wolfgang Fritz, manager of LMBV.

Set up in 1995, LMBV has an even wider brief. It has to decide which subsidiaries of the mines are worth saving - for example, whether there is a future for the lignite briquette factories.

The management must also develop a long-term programme for reclamation once the mines have been safely closed. In some of the early stages of the reclamation period, LMBV has sown grass or crops. Depending on the amount of chemical waste deposited in the land-fills among the disused mines closed by the former communist authorities before 1990, as well as the stability of the terrain, some of the land can be fit for sheep-grazing.

LMBV has calculated it that must clean up 38,000ha of land, restore the water balance to 300,000ha which had a water deficit of 14.6bn cu m and decide how 450km of uneven and often dangerous terrain can be reutilised.

Parallel with the clean-up is the federal government's special reclamation plan which keeps 16,000 former miners in work until the end of the decade through public subsidies at an annual cost of DM140,000 per employee. A further 3,000 are permanently employed by LMBV.

The annual DM1.5bn clean-up and reclamation costs are shared by the federal government and the states, with the former financing three-quarters of the total costs. But as the government embarks on its own cost-cutting programme, which envisages making budget savings of more than DM50bn next year, LMBV is concerned that financing for the temporary employment schemes, as well as the clean-up itself, might be reduced as well.

Fritz says that any financial cut-backs would have long-term damaging effects for the environment, besides adding to the high unemployment levels. The main concern is the water levels. "We just can't afford to have flooding. This is a long-term controlled process where there are few short cuts."

Cutting the cost of a catastrophe

Insurance managers and scientists are combining to study weather risks, says Emmeline Ledgerwood

Science and the insurance industry are collaborating to increase their understanding of the risks associated with the catastrophe reinsurance business.

A research programme involving scientists and top reinsurance managers has been set up in Bermuda, home of some 20 per cent of the \$6m (\$2.8bn) global catastrophe reinsurance market.

"It could not have happened anywhere else," says Tony Michaels, who heads the Risk Prediction Initiative run by the Bermuda Biological Station for Research. His team is studying various areas of climate research to evaluate some of the risks inherent to catastrophe reinsurance.

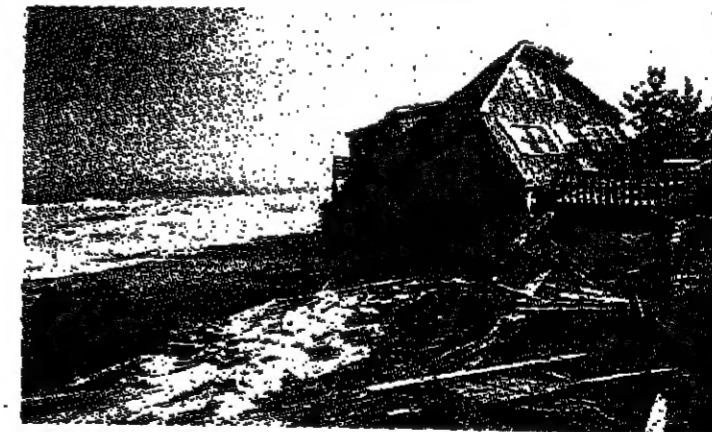
"Our biggest problem as a catastrophe reinsurer is to find a balance in our portfolio," says Jeremy Hindle, vice-president at Mid-Ocean Re, a leading reinsurance company on the island. "We could be charging the wrong premiums, with completely the wrong exposure. We need to determine the probability of every type of peril we could face for."

These concerns have been compounded by signs of global warming, which some companies believe will lead to increased catastrophe frequency.

Traditionally, reinsurers calculate the probability of disasters by referring to the frequency of similar events during the past 150 years. But in the past decade, a string of severe catastrophes, beginning with the huge storms in Europe in late 1987 and culminating in Hurricane Andrew which devastated parts of the Caribbean and the southern US in 1992, have caused huge losses.

The RPI team has pointed out that some cycles in the global climate system are longer than the 150-year observation period. One of the programme's main aims is to improve the historical record.

The RPI is funding Kam-bin



Experts believe global warming will increase the frequency of hurricanes

Lin at Louisiana state university to analyse sediments in coastal ponds. He has detected hurricanes that raged up to 5,000 years ago through tell-tale layers of sand at the bottom of ponds. "It provides a telescope into the past," says Lin. Other clues have been left in tree rings and cave formations. Rain produced by a hurricane is of a slightly different chemical composition and is still detectable after it has been absorbed by trees or stalagmites.

The RPI's second objective is to develop forecasting tools for the reinsurer. Some established climate prediction models can be adapted to their needs.

For example, models that currently forecast storm intensity and frequency would also predict which hurricanes are going to cause losses by making landfall. "It is totally value-added," says Tony Knap, director of the Bermuda Biological Station.

Existing programmes at the station focus on the ocean's atmosphere system that plays a fundamental role in controlling global climate. Knap jumped at the opportunity to use this expertise in setting up the RPI. "It is a nice wrinkle. We wanted to do something apart from pure science," he says.

Thirteen local reinsurance companies subscribed to the RPI by the time membership was finalised in November 1995. They contribute equally to the \$1.5m annual budget.

Hindle at Mid-Ocean Re believes the reinsurance industry could be transformed once the RPI can produce long-term forecasts. Achieving 10-year predictions will make longer-term contracts more viable.

Those skills remain a long way off for the RPI, but there are other benefits to be gained from the immediate short-term forecasts. Storm warnings will give reinsurers the option to access the capital markets to boost reserves or to take out their own form of reinsurance, called retrocession. Some reinsurers also envisage new products; companies may start to offer insurers short-term policies as extra cover if a catastrophe seems imminent.

The participants agree that the data distributed through the RPI will mean they are better prepared for another disaster like Hurricane Andrew. However, says Neil Currie, senior vice-president at Renaissance Re, it is still up to the individual companies to interpret that information. "The bullets are there, and each company has the ability to use the ammunition as it sees fit."

ARTS

Television/Christopher Dunkley

Spaced out over the weekend

Do you remember the time when no bank holiday weekend was complete without a circus on television? You do not have to be very old to do so, and yet contemporary attitudes towards performing animals (and, perhaps, towards female performers in brief sequinned outfits) ensure that a televised circus is now virtually unthinkable. No industry in Britain is more politically correct, nor more in thrall to feminist dogma, than television, and so, today, bank holiday weekends mean sport and movies and probably a theme night.

This time BBC2 screened *Star Trek: Voyager*, more than five hours of programmes about the dreary, repetitive and portentous American space opera. It was yet another indication of the killer grip that relativism has taken on the whiffle of the body cultural. Not long ago - round about the time when circuses were still permissible - the notion of media studies courses dedicated to *Star Trek* was regarded as ludicrous. But matters have moved so fast, and those who would once have known quality from rubbish without needing to think about it, have become so confused that BBC2 now gives us a whole night of *Star Trek*. Some will say "It is a joke". Others will claim it is just a cynical attempt to boost ratings by attracting the anoraks who attend *Star Trek* weekends.

But read the BBC's own hype and the background material put out for the press and you realise how seriously it is taken. Of course that still leaves three terrestrial networks (and two more nights of BBC2) plus several dozen more channels on the cable, so what else did the holiday weekend offer? Mercifully the BBC still screens some Test cricket and so it was possible to see the game being played with-

out the pink pyjamas or weeping Disney-style ducks decreed by Sky. Of course England was, once again, not merely beaten but given a lesson in how to play the game by Pakistan. However, there was much to delight anyone whose love of cricket outweighs their love of country, and the sheer expertise of the BBC's coverage does quite a lot to reduce the pain of sharing another national drubbing. Moreover, Richie Benaud's outstanding work as a commentator goes some way to make up for the terrible things done to the televised game by his compatriot, Rupert Murdoch.

BBC1 brought us *The Blue*, a two-part filmed thriller about a couple drawn into drug smuggling, which was excellent in several ways. Unlike so many productions of this sort on television, the climaxes were as tense and exciting as you would expect in a Hollywood movie. The acting, especially from the crooks (notably Pamela Rabe as Samira and Keith Allen as Shelley, avoiding a parody of villainy by a hair's breadth) was impressive, especially for a co-production, though happily this was Anglo-Australian rather than a Europroduction. And the exotic locations were well used without that awful feeling that the pictures were vital to justify the budget. After Part 1 on Saturday it would have taken someone with a stronger will than mine to miss Part 2 on Sunday. But then within 10 minutes or so the story proper was over, yet it went on for another 80 minutes. Why, when we know so well from the cinema that 100 minutes is ample for almost all dramas, does television so often insist on adding another 80 or so?

Riverdance - *The Show* on Channel 4 on Sunday was also

excessively long. Those who caught a glimpse - well, a couple of minutes perhaps - of that long line of Irish folk dancers during the interval in the *Eurovision Song Contest* a couple of years ago, and were mesmerised by the massed tap routine which brought the house down, were naturally keen to see more. But Sunday's 90-minute programme proved that the song contest had already shown us everything significant. Pogo-ing with your arms by your side is a pretty limited activity, however beautiful your legs, and if we want to see Flamenco dancing we would surely be better off watching Flamenco dancers.

The best programme that I saw over the holiday weekend (and one of the best this year) was the two-part biography of H.G. Wells in BBC2's *Bookmark*. There was nothing flash or fancy here, just bags of research, lots of good interviews - grandson Martin Wells, illegitimate daughter Anna-Jane, academic John Carey, Rebecca West's biographer Victoria Glendinning, and more - and a strong sense of biographical narrative. Presumably it was producer Sharon Maguire who had the bright idea of not only using Michael Foot as presenter, but getting his wife, Jill Craigie, to chip in repeatedly with doubts about Foot's obvious hero worship.

Craigie championed Wells' wives against his mistresses, contradicted Foot's claim that Wells wrote admiringly about the suffragette movement (he just described the rallies which you could scarcely ignore, she said) pointed derisively to his belief in eugenics, and generally made the point that, whatever his supposed ideals regarding socialism and equality, he behaved pretty badly towards women. And yet, as *Bookmark* made startlingly clear, they lapped it up. There



Star Trek: beamed up for over five hours

has been a lot of fuss recently about sexually explicit shows on late night television, but it is rare even there to find anything quite as explicit as this programme. Viewers now have a detailed knowledge of the interestingly extensive bedtime predictions of Wells and West, and several examples of his letters telling her in detail what The Jaguar intended doing with his beloved Black Pussy next time they met. Assuming you had not read a

recent biography, it could not but affect your view of Wells' writing. The other essential ingredient of a bank holiday weekend on the box is, of course, old movies of which there were dozens (well, two and a half dozen) available without even resorting to the specialised movie channels. There were the usual holiday specials - *Close Encounters*, *Indiana Jones*, *Whatever Happened to Baby Jane* - but also, from Channel 4, two

Marilyn Monroe pictures which are essential viewing for any Monroe fan, *Niagara* and *How to Succeed in Business Without Really Trying*. Better still, from BBC2, were two films adapted from books by H.G. Wells: *The History Of Mr Polly* and *The Time Machine*. Maybe only a few viewers watched all of both as well as the admirable *Bookmark* biography, but the point is that BBC2 made the whole package available. Better than a circus.

Theatre Iberians out on a limb

Anaked man with his head in an aquarium tank is drenched by a spray from between the thighs of a red PVC bikini-clad woman. He is on a trolley that is pushed across the stage by a woman with shaggy blonde hair about 20 feet long, borne like a train in the mouth of another naked man who crawls after her. They pass a sailing ship going in the other direction.

A tenor belts out something incomprehensible as the door to a large fridge-freezer is repeatedly opened and slammed shut on two naked men in a variety of positions who shirk with surprise each time. A man in red PVC trousers with a large prawn on his back dances on a wardrobe goading the percussionist inside to a fury. A young man flies around on a wire playing the violin and flirts with the evening's protagonist: a player piano that moves across the stage by itself, its little keys bouncing autonomously away. Sometimes a woman in black PVC sits on it and gorges, showing her cleavage. The woman with shag-pile hair reappears. She spends much time in a huge bed flanked by high-beel shoes



as big as sentry-boxes. A man shouts at her in what fitfully emerges as American English, no more intelligible than the Catalan of the rest of the show. She clucks like a chicken as he stands on his head. Six elderly (Edin)burghers sitting in front of me walk out.

Two men have their crotches stroked by hands that protrude from the wings. They jiggle with one another then do something mercifully hidden from us to the obliging handmaidens.

I sometimes think that Spain's post-Franco moral liberation has gone rather too far. *The Splendid Shave of the Dead Baddy Done*, to translate into English (not that anybody does during the hour's traffic of this particularly congested stage) is written, composed, directed and designed by Carlos Santos. Suppressing an urge to exhort him to seek a second opinion, one can only admire the wonderful technical skill with which trolleys, wardrobes, deep-freezes, tables and sailing ships, besides the star pinola, whizz to and fro in the King's Theatre.

The company is energetic and patently does not take itself too seriously or imperil the physical well-being of the audience. I have no idea what they are on about but at least 60 minutes this is no great tragedy. Programme remarks let slip that the shag-pile haired lady has to live horizontally since living vertically would cause her death. Personally, I find the whole thing reminiscent of those parties attended by junior ministers that one reads about in the less cerebral Sunday papers. Just what international arts festivals need more of. Oie!

Martin Hoyle

Tuned in to Salzburg

Gerard Mortier's hope of "democratising" the Salzburg Festival is still hobbled by the ticket-prices. The best seats for opera are an arm and a leg, which is to say about £270, less good ones cost from £115 down to £75, and fairly terrible ones about half that - a couple of fingers, say.

To be fair, these alarming figures do not represent operatic inflation so much as the relentless decline of the British pound. Still, you can understand why Salzburgers themselves are a small minority at festival parties. They come into their own at the "Mozart-Matinees", in the beautiful little Mozarteum at weekends, secure in the knowledge that nothing worse than Barok will be on the programmes. There I heard Leopold Hager, guest Saturday morning, conducting the Mozarteum Orchestra in Mozart and Haydn. They delivered the goods with their usual unshowy grace, and in Mozart's F major piano concerto, K.458, Till Fellner was a searching, super-sensitive soloist.

In the same hall that afternoon, Sir Georg Solti arrived with the Vienna Philharmonic. Suddenly the atmosphere was electrified - not so much by Barok's Divertimento, which was tamed by the Viennese strings

soft-edged *gemütlich* style, but in Solti's thrusting account of Haydn's 104th Symphony and a wonderfully rumbustious Beethoven 2nd.

The evening brought a concert by Christoph von Dohnányi and his Cleveland Orchestra in the Felsenreitschule, the venerable "rocky riding school" carved out of the Mönchsberg cliff-face. (They are on their way to the Edinburgh Festival, for tomorrow night and Friday.) A curious programme: before Brahms' First Symphony - silken, seamless playing, superbly balanced - they gave a more or less perfect performance of Charles Ives' *The Unanswered Question*, enigmatic but transparent, and quite haunting in the vast spaces of the Felsenreitschule; and then the premiere of a 35-minute piano concerto by Marco Stroppa.

Stroppa is 37, and his music was featured in this year's festival as part of Mortier's brave "next generation" mini-series. It was a pity that earlier pieces of his were programmed a two weeks before, as they might have helped us understand the concerto, entitled "A blade of grass" (after Yeats), which is tantalisingly wispy for its considerable length. It is hyper-delicate and refined, revelling in soft, high, glimmer-

ing sounds - string-harmonics, harp, wind-chimes, lots of *pppp*, the solo piano tingling with trills and tremoli. Pierre Laurent Almarid played it with evident tenderness and extreme finesse. One was persuaded that something seriously musical was going on, without any idea of what exactly that might be.

Truth to tell, I feel rather the same way about Beethoven's *Missa Solemnis*. It is great and extraordinarily original music, but also "difficult" just for that reason. On Sunday in the Grosses Festspielhaus, John Eliot Gardiner conducted it with his Monteverdi Choir, his Orchestre Révolutionnaire et Romantique and an ideally matched quartet of solo singers, and I began to have glimmerings of understanding it at last.

One would call it a truly "inspired" performance, if the word did not suggest something much less controlled and calculated than Gardiner gave us. I have heard grander (and louder) accounts of the *Missa*, but none so penetrating nor, indeed, so intensely dramatic. The secret lay partly in Gardiner's grasp of proportions, and the way in which he bent all his performers toward a common, unanimous end. Memorable.

David Murray

The Proms Elijah and Lulu

Bank holiday weekend at the Royal Albert Hall began with *Lulu* and ended with *Elijah* - a descent into the moral abyss followed by an act of penance and purification. Berg's opera was performed on Friday in a semi-circular version of this summer's Glyndebourne production. On Monday, the 150th anniversary of its premiere, Mendelssohn's oratorio was given by BBC choral and orchestral forces from Wales, with Bryn Terfel in the title role. The works proved oddly complementary. Berg's music is forward-looking, affords much intellectual pleasure and makes us identify with the damned. Mendelssohn puts us firmly on the side of the righteous in a work of mid-19th century piety which casts a backward glance to the baroque and classical masters. The two performances had one common feature: an excess of English piety.

That quality seemed more appropriate to *Elijah*, which was written for Birmingham. The work has long been out of favour, and one can see why. Much of it has the character of a narrative hymn from Leipzig, sung in Old Testament English, with nothing too dramatic to characterise the spiritual heights or depths. Even Jezabel has nice music.

Richard Hickox took it at face value: this was a well-behaved performance of a well-behaved work. Mendelssohn's pleasing tunes were unfolded with impec-

cable smoothness, the big choral numbers distinguished by their cohesion and dynamic control. Everything had been thoughtfully prepared - but it was all rather predictable, leaving the impression of a choral monolith of self-regarding religiosity. Isn't it time someone tried a pared-down version, in a style more attuned to clarifying texture and melodic line?

The performance boasted 10 soloists and a chorus of more than 300 - but the man everyone wanted to hear was Terfel. His *Elijah* had size, conviction, passionate eloquence and a proper control of operatic temperament.

Lulu was anything but predictable: the Prommers may not have picked on the Glyndebourne lawn, but they got a better picture of what *Lulu* is about. Shorn of its monotonous red-brick wall and moralising tone, but retaining its up-to-date costumes and a scattering of props, Graham Vick's production (skillfully adapted by Matthew Richardson) made its point: this story could happen today. Nevertheless, by showing highlights with mobile phones and good-time

girls in fashionable frocks, Vick anaesthetises *Lulu* because its world becomes too normal, too similar to our own.

The advantage of hearing *Lulu* semi-staged was the amount of musical detail it uncovered: the self-effacing bassoon and viola obbligatos in the first scene of Act 2; the amount of piano and percussion in the score; the almost impressionist palette on which Alwa's aria is built. The downside is that the gaps in Berg's inspiration are made plain - especially in the second part of Act 2 and the Paris scene (where Paul Brown's turntable set at Glyndebourne had been especially effective). Is it coincidence that these are exactly the scenes where the Schön-Lulu axis is missing?

The Proms performance was a triumph for Andrew Davis and the London Philharmonic, who made the music sound effortlessly natural. The cast also blossomed in the larger auditorium: I liked Christine Schäfer's *Lulu*, because she is gamine, coy and sexy, and glides through the acrobatic upper reaches. Wolfgang Schöne's Dr Schön had unmistakable authority. Kathryn Harries, Stephan Drakulich and Patricia Bardon made the most of their parts, and Donald Maxwell's Athlete nearly upstaged them all. Only Norman Bailey's harmlessly buffo Schigolch missed the mark.

Andrew Clark

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● Nederlandse wapens uit Rusland: this exhibition features 17th century Dutch fire arms from the Kremlin in Moscow. The weapons were given to the Russian tsars by the Dutch; to Sep 29

BARCELONA

EXHIBITION
Museu Picasso Tel: 34-3-3196310
● Picasso and the Linocut: this exhibition features 68 linocuts from the collection of the Museu Picasso. Between 1954 and 1964 Picasso devoted great attention to the linocut. His merit lies in the innovations that he made in this medium; to Feb 1

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090

● Chong-Un Ensemble: perform arias and songs by Mozart, Brahms and Donizetti; 7.30pm; Sep 1

CHICAGO

EXHIBITION
Art Institute of Chicago Tel: 1-312-4433600
● Illustrations by James Ransome and John Steptoe: exhibition of original illustrations by African American artists James Ransome and John Steptoe. Included are Ransome's original artworks for the illustrations in Marguerite King Mitchell's book "Uncle Jed's Barbershop" as well as paintings by Steptoe that illustrate his book "Mufaro's Beautiful Daughters"; to Sep 3

COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Kölner Rundfunk-Sinfonie-Orchester: with conductor Hans Vonk, flautist Dita Krenschga, violinist Lella Josefowicz, cellist Quirine Viersen and pianist Evgeny Sudbin perform works by Berlioz, Ibert, Prokofiev and Stravinsky; 8pm; Aug 30

COPENHAGEN

CONCERT
Twinkl Concert Hall Tel: 45-33 15 10 01
● Twinkl Symfoniorkester: with conductor Michael Bendtsen and

soloists Nicolai Justesen and Nikolaj Borch perform works by Lumbye, Wagner and Nybye; 7.30pm; Aug 30

EXHIBITION
Statens Museum for Kunst - Royal Museum of Fine Arts Tel: 45-33 91 21 28

● Erik Mortensen, Classic Art: exhibition combining the museum's collection of renaissance, baroque and rococo art with some 120 haute-couture models by the Danish fashion designer Erik Mortensen; to Sep 1

EDINBURGH

THEATRE
Edinburgh International Festival Tel: 44-131-2255756
● Curried Goat: performance at Pleasance by this sketch group, featuring Dan Gaster, Will Ing and Ben Sibum, also known as sketch writers for Spitting Image, Saturday Night Live and other shows. Part of the Edinburgh International Festival; 5.40pm; to Aug 31

GSTAAD

CONCERT
Menuhinfestival Alpenglau Tel: 41-30-47173
● Sinfonia Yarusov: with conductor Yehudi Menuhin perform works by Britten, Mozart and Beethoven. Part of the Menuhin Festival; 7.30pm; Aug 31

LONDON

CONCERT
Purcell Room Tel:

44-171-960422
● Klezmer Swingers: with pianist Wallace Fields, double bass-player Murray Salmon and drummer Malcolm Ball perform Jewish music; 7.30pm; Sep 1

EXHIBITION
Tate Gallery Tel: 44-171-8878000

● Leon Kossoff: this exhibition includes 80 paintings by this British artist and follows the development of his work from the 1950s; to Sep 1

LOS ANGELES

CONCERT
Hollywood Bowl Tel: 1-213-850-2000
● Los Angeles Philharmonic: with conductor John Williams and baritone Jubilant Sykes perform music by Williams, Copland and others; 8.30pm; Aug 31

NEW YORK

EXHIBITION
International Center of Photography Tel: 1-212-860-1777
● In Images of War and Peace: The Photographs of David and

Peter Turnley: exhibition of more than 200 works by David and Peter Turnley, who have photographed every major news event of the past 15 years, including the revolutions in eastern Europe, the uprising in Tiananmen Square, the dismantling of the Berlin Wall, the Gulf war and the Bosnia conflict; to Sep 8
The Metropolitan Museum of Art Tel: 1-212-879-5500
● The Iris and B. Gerald Cantor Roof Garden: a selection of sculptures from the museum's collection. Highlights include Auguste Rodin's *The Three Shades* and Gaston Lachaise's *Standing Woman*; to Oct 29

PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Francis Bacon: retrospective exhibition devoted to this English painter (1909-1992). The display features 86 works - 79 paintings and 7 works on paper - from public and private collections, giving an overview of Bacon's artistic career; to Oct 14

SALZBURG

CONCERT
Grosses Festspielhaus Tel: 43-662-9040
● Koninklijk Concertgebouworkest: with conductor Riccardo Chailly perform Schoenberg's *Variations* and Bruckner's Symphony No.5. Part of the Salzburger Festspiele; 9pm;

Aug 30

TURIN

CONCERT
Settembre Musica, Assessorato per la Cultura Tel: 39-11-576 5564
● Bang-on-a-Can All Stars: perform works by David Lang, Julia Wolfe, Steve Reich, Frederic Rzewski, Martin Bresnick, Evan Ziporyn and Steve Martland. Performance at the Piccolo Regio Giacomo Puccini, as part of the Settembre Musica festival; 8pm; Sep 2
● New York Philharmonic: with conductor Kurt Masur perform Tchaikovsky's Symphony No.5 and excerpts from Prokofiev's *Romeo and Juliet*. Performance at the Auditorium Giovanni Agnelli del Lingotto; 9pm; Sep 1

VENICE

FESTIVAL
La Biennale di Venezia - Settore Cinema e Spettacolo Telemis Tel: 39-41-5218711
● Venice International Film Festival: the world's oldest film festival, this year for the last time under the direction of Gillo Pontecorvo. Highlights include the world premieres of new films by Jean-Luc Godard, Volker Schlöndorff, Jane Campion and Ken Loach; from Aug 28 to Sep 7
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18.00 Financial Times Business Tonight

COMMENT & ANALYSIS

The Spanish body count

ON THE BEATEN TRACK

The high-prowed fishing boats are hauled up on the quiet beach. From the old castle on the rocky bluff, tropical gardens reach down towards the sea. In the moonlight, wooded hills loom soft and dark in the background behind the discreet hotels, half-hidden among the palms. Bougainvillea spills over the cliff.

Only joking. Any boats have to find space between grid-formations of beach umbrellas and plastic sun loungers. The castle, once an English-owned residence, later a solitary hotel, has been replaced by a big square block of flats. The outlook up and down the coast is solid buildings, up to 16 storeys high.

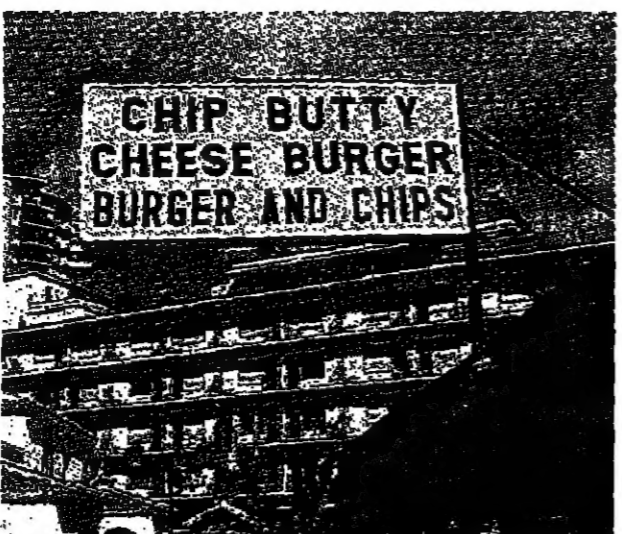
This is Torremolinos, home to Bel Hans and Barry's English Pub, Pat Murphy's and Ye Olde Wool Sack. It is also August. By mid-morning on the beach the bodies go on for ever, until they disappear in the heat-haze. From the mix of tanning oils and creams there wafts a pervading, slightly nauseating, fragrance of coconut oil.

"This was the first place to get ruined," says Mr Antonio Cruzat, a hotel manager. "In the tourism business, you can have a few who pay a lot, or a lot who pay a little."

The pioneer among the Costa del Sol's resorts, Torremolinos is the most typical and cosmopolitan. You hear not just English but French, Italian and Portuguese. There are German, Dutch and Finnish bars. At last count it had 78 hotels and boarding-houses, 14 with 500-plus beds. From the waterfront the hilly setting can be appreciated only in glimpses. It seems to have been split apart by the builders.

A five-minute drive from Málaga airport, this one-time neglected village has been transformed beyond recognition since the first package tour came to Spain 40 years ago. Before then, guidebooks barely bothered to mention it, even less the undistin-

David White on Torremolinos, which measures its visitors by the amount of garbage they produce



Room with a view: the British are the main foreign visitors

guished place called Marbella down the coast. In the early days it was favoured by Bohemians, drop-outs, one or two ex-Nazis and - already - British full-time drinkers. When the first big hotel, the Pex Espada, went up in 1959 - then rated *grand luxe* - there were still donkeys in the streets and shanty-dwellers taking buckets of slop down to the sea.

Torremolinos packs 40 per cent of the Costa del Sol's accommodation capacity into its relatively cramped 20 sq km. Seventy per cent of the land has been built on. Besides the hotels, there are 50 blocks of holiday apartments on the official register, and others that are not. People who have known the town for years can lose their way. Parking is difficult.

Mr Frank Hall, now retired here with his wife Glenda, first came to the area in 1950 as British vice-consul in Málaga. He had arrived from the Middle East. "When I got here and looked around I realised that poverty was at Middle Eastern standards," he says.

Once a fortnight he would drive the "beautiful" 130km to Gibraltar to fetch the diplomatic bag and navy rations. Today that coast, to

beyond Estepona, is a single conurbation, with no clear division between one place and the next. "We never expected it to go as it did," he admits.

It was difficult to imagine how tourism would take over, says Mr Pedro Fernández, the town's mayor. "Nobody realised it would be a thing of the masses." He describes the vertiginous growth of the 1960s as "a window opening in the Spain of that time". For a while Torremolinos drew film stars and royalty - Sean Connery in his James Bond days, the Duke and Duchess of Windsor. But they took their golf bags down the coast to the costa's gritty, socialist Marbella which is at the top end of the costa's market.

According to the mayor, whose family used to farm in the area, the town now depends 96 per cent on tourism. There are remnants of what it used to be - the watermills which gave it its name, the villa designed by a cousin of Pablo Picasso for a flamenco dancer, now a hotel. But you have to search for them. Charm is not the word.

But Torremolinos must have some secret, because it is packed to the last room.

The population, which was recorded as 3,000 75 years ago, officially stands at 35,000. But there are reckoned to be between 90,000 and 100,000 here at any one time in winter and between 200,000 and 250,000 in August. They measure the numbers by the output of garbage.

The Costa del Sol last year accommodated 1.9m hotel guests, spending almost 10m nights, a 30 per cent increase compared with five years earlier. Hotel occupancy year-round was more than 75 per cent. In August, according to regional government statistics, it was 100 per cent.

Torremolinos was built on trade from the UK. The first British pub, the Galloping Major, opened in 1964, and Britons are still the main foreign contingent. But their dominance has become diluted by tourists from the rest of western Europe, especially in high season.

It is also popular with the Spanish. Either it does not have the same down-market image for them, or they are less worried about it. They have taken Torremolinos back for themselves. Beans on toast are not obligatory. Indeed, the town is even gaining a reputation for its fish restaurants.

It is not as bad as it was. Since winning its administrative independence from Málaga in 1968, Torremolinos has had its own money to spend and has become less scruffy. The mayor says it is not exactly trying for a new image, but aims to improve facilities. This year it has planted 3,000 trees. No more buildings are allowed with more than seven floors - although there is no plan to demolish any of the existing blocks.

A UK tour manager says Torremolinos's efforts do not look like reversing a growing preference for the trancier and more modern resorts further along the coast. "If they don't do something about it now or in the near future," she warns, "they will lose out altogether."

This is the sixth in a series on places changed by mass tourism

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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The enormous costs involved in changing UK telephone numbers

From Sir Bryan Carsberg, Sir, Lord Howe recollects (Letters, August 8) correctly that he wrote to me some years ago asking why Britain could not manage with fewer telephone numbers given the more parsimonious use that is seen in North America and France. I am sorry that he found my answer unconvincing.

Telephone numbers are addresses which have to be recognised by the network. They are also linked to instructions for routing calls through the network. Decisions about numbering

schemes need to take account of the balance between transmission costs and switching costs and also customer convenience factors such as ease of use, recognisability, and so on.

The balance of these factors can change over time with changing technology. Simple arithmetic shows that the UK could manage with fewer numbers than it actually uses.

Probably, we would manage with fewer if we were starting from scratch today. However, the point I tried to explain to Lord Howe when he wrote to me

originally is that change has an enormous cost.

If the UK were to change to a system like that used in the United States, a huge number of people would have to change their telephone numbers - many more than under the changes that have been made or are currently planned. The cost would have been enormous.

Bryan Carsberg, secretary-general, International Accounting Standards Committee, 167 Fleet Street, London EC4A 3ES, UK

Sony's masterly retail skills

From Mr Michael Poyner, Sir, in the article about Sony's move into personal computers ("Sony's defence of the living room", August 26) Michioyo Nakamura foresees a problem in Sony not being "used to dealing with the kinds of customer enquiries and demands that are part of life in the computer world".

This may well be the case for business-to-business transactions, but in retail, where computer sales are showing their fastest rate of growth, it could be a very different story.

Sony is a clear market leader, not only in its core product areas, but also through its skills in communicating with consumers, facilitating their purchases and serving their after-sales needs.

The real problem for many established PC distributors is that it is they who have yet to become used to dealing with the kinds of queries and demands that are a part of life in the retailing of audio-visual products.

Sony might well have some PC product lessons to learn but as a supplier to the retail industry it is now the master and the pupil.

Michael Poyner, retail director, The Coca Group, 40 Holborn Viaduct, London EC1N 2PB, UK

Politics and management gimmicks

From Mr Erik K. Sites, Sir, Each Monday morning, I brace myself for Lucy Kellaway's counter-intuitive commentary on every conceivable facet of management.

Her post-modern approach is provocative and evocative but never cynical. Her recent article on the extremes of consulting ("A gimmick that's a worthwhile tool", August 26) is a good example.

As a consultant myself (I feel almost guilty saying so), I have always been wary of management gimmicks or quick-fixes.

The weight of any corporation's history and staffing - not to mention the market environment in which the product sells - make it difficult if not often presumptuous for a consultant to be effective as

a final arbiter. So, why not help companies help themselves? This might sound simple but it is not simplistic.

When I talk to managers, I am impressed with their inherent (albeit often untapped) brainpower and expertise. As Ms Kellaway hints at in her comments about the "glass ceiling" everything is politics and perception.

Business is politics. If you thought it was just profits, guess again! And maintaining the right political mix is the challenge.

Gimmicks are necessary, but not sufficient. Even consultants have to push their own agenda in the client's corporate political arena.

If we do not address the political issue, no amount of benchmarking, TQM or

re-engineering will help.

Most consulting should be designed to get managers to recognise political problems so that the company can set about solving the real issues and making that profit.

Help them peel back the banana - a sorry metaphor, I know - but then leave. Unless companies are willing to engage in this type of solution-seeking from within, no amount of second-guessing from the periphery will help.

Maybe this advice is a gimmick, too. Yes, Ms Kellaway, I do feel somewhat silly at times putting a price on common sense. Have you had the same feeling?

Erik K. Sites, Prima Bernhardlaan 58, 3116 EE Schiedam, Netherlands

US model can shed light on a united Europe

From Mr Henry Owen,

In his column "Resist the melting pot", August 16, Mr Michael Stürmer points out the cultural and other differences that exist among Europeans, and that distinguish Europe from the US - thus making a Jean Monnet-type European state impossible. Implicit in this view is a misunderstanding of American politics and culture.

Having lived in America

and Europe, I can testify that the differences between Americans in California, Texas, Ohio, Alabama and New York are at least as great as those among Europeans living in France, Germany, Belgium, Holland and Italy.

These differences do not prevent Americans from functioning as a single national community. Why? Because we deliberately keep our central government

weak. The founding fathers wanted it that way and wrote the constitution accordingly. The Supreme Court has helped to maintain these limitations. Most issues in the US are settled not by Washington but by the workings of our vast national free market or by the political processes of individual states. Might not this be the way things will work out in a European Union?

US experience can shed light on prospects for a united Europe, but only if it is understood. Our national motto, "e pluribus unum" better describes that experience than the popular phrase "melting pot".

Henry Owen, consultant to Salomon Brothers Inc, 1616 H Street, NW, Suite 400, Washington DC 20006, US

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FT FINANCIAL TIMES

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Alice Rawsthorn on the business consequences of a sore throat

When an Oasis dries up

Liam Gallagher, the

unrelentingly laddish lead

singer of the rock group,

Oasis, has been cast as the

tabloids' favourite anti-hero

since his band shot to fame

two years ago.

In the past few days his

notoriety has reached new

heights. When Liam pulled

out of a performance at the

last minute after being diag-

gnosed as having laryngitis.

He also refused to accom-

pany the band on its US

tour, claiming that he

needed to stay in London to

rest his voice and to find a

new home with his girl-

friend, the actress Patsy

Kensit.

The fate of Liam's vocal

cords has important impli-

cations for the international

music industry, since his

voice has played a pivotal

part in establishing Oasis as

the UK's best-selling rock

group and one of the most

promising acts in the £40bn

(£26bn) global music market.

A few years ago the five

members of Oasis - without

a GCSE pass among them -

were grateful to be booked

for a gig at the Joy Of Ale,

an unseemingly Birming-

ham pub. In the past two

years they have sold 15m

copies of their albums. 1994's

Definitely Maybe and 1995's

Morning Glory, and at least

5m singles, generating global

retail sales of about £250m.

Earlier this month, Oasis

sold 250,000 tickets at £22.50

each for two concerts at

Knebworth in Hertfordshire.

The band seemed set to join

the handful of global super-

groups, such as R.E.M. and

U2, which enjoy a happy

combination of critical

acclaim and commercial suc-

cess.

Supergroups are the most

valuable assets of the multi-

national companies that

dominate the music indus-

try. The favourable reviews

which greet each new album

trigger sales of previous

releases, and their appeal

lasts longer than that of teen

idols, whose fortunes falter

as their looks fade



Sound move: Liam Gallagher, singer with perfect pitch

his career and has occasion- ally had to cancel concerts. Similarly, the Rolling Stones rescheduled some dates during a 1990 tour when Keith Richards, the lead guitarist, cut his finger. But Oasis will go on stage without the ailing Liam: his elder brother, Noel, will sing lead vocals in addition to his usual duties of playing lead guitar, writing the music and co-producing the records.

It is Noel's gift for composing songs that people enjoy singing along to in the suburbs of New Jersey and Yokohama, but still yield rave reviews from cynical *New Musical Express* critics, that is the foundation of Oasis's success. Yet his compositions never sound better than when sung by Liam whose voice combines perfect pitch with a punkish snarl.

The Gallagher's musical talent is enhanced by the friction of their fraternal rivalry, like that of Ray and Dave Davies of The Kinks, and by an apparently endless appetite for rock star excess. "They're hard-drinking, groupie-shagging, drug-snorting louts," ran the headline in a recent *Rolling Stone* magazine cover story. "They're the Gallagher brothers. And they're huge."

If, as the tabloids have hinted, Liam's laryngitis is a prelude to quitting Oasis, the band could go on without him, either with Noel, or a new singer, on lead vocals. But few groups survive the loss of stars. Pink Floyd flourished commercially, if not critically, without Syd Barrett; but the Stone Roses, once billed as another possible supergroup, has flourished since this spring's departure of guitarist, John Squire.

Liam Gallagher would be an even tougher act for Oasis to follow, not only because of his voice but because, as his elder brother pointed out this weekend, without him all that remains are "the four ugly ones".

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Wednesday August 28 1996

Subsidies in Germany

Yesterday's hint by the German cabinet that it wants to de-escalate its confrontation with the European Commission over state aid to Volkswagen is a welcome move in a dispute which has been in serious danger of running out of control. But Bonn needs to move much further if a settlement is to be found which respects the principles of fair competition in the European Union and Brussels's right to enforce them.

The row turns on the decision by the eastern German state of Saxony to offer VW DM750m (£333m) in subsidies to develop two vehicle plants. The Commission has blocked payment of DM241m of the package, which it says violates EU state aid rules. Last month, Saxony paid DM51m of the disputed sum in defiance of the ban, which the state government is challenging in the European Court. Bonn is considering bringing a similar case, but yesterday deferred a decision in the apparent hope of negotiating a compromise.

Germany insists the aid is legal, arguing that EU laws entitle it to give exceptionally generous subsidies to eastern Länder. Brussels has until recently shown itself sensitive to the economic demands of reunification, by treating such aid relatively leniently. However, its vigorous objections to the support for VW appear to reflect its growing concern that Germany's largesse towards the east is exceeding economically reasonable bounds.

Troubling issue

The Commission is right to be worried. Federal tax breaks and subsidies to the eastern Länder are officially forecast to total more than DM15bn this year, or DM1,000 for each inhabitant. This is a huge sum, even allowing for the region's economic and industrial backwardness. There are also questions about whether the money is being properly spent. These were highlighted by the recent revelation that Bremer Vulkan, the bankrupt shipbuilder, used subsidies intended for the east to prop up yards in the west.

Responsibility for prisons

Yet again, a dubious episode involving the UK's prison service has raised the issue of the relationship between ministers and the new breed of executive agencies. The latest episode is last week's early release of prisoners because of a re-interpretation by the prison service of calculations for those serving consecutive sentences. This decision was rapidly reversed by Mr Michael Howard, the home secretary, but only after 80 or so prisoners had been released.

There are a number of unsatisfactory aspects to this episode. If the prison service's re-interpretation - based on legal advice from home office lawyers - was correct, then those prisoners were correctly released, and hundreds more are being improperly held. If Mr Howard's restoration of the status quo is correct - as a commonsense reading of the law suggests - then 80 prisoners have been set free too soon.

That would be troubling enough. But it is only the latest of a series of fumbles between ministers and executive agencies. The prison service has proved the agency most vulnerable to such problems, but it is by no means the only one: last weekend, for example, Liberal Democrat MPs called for the resignation of the head of the Benefits Agency because of an alleged contradiction between a leaked letter from the agency and answers given to parliament by ministers.

The problem is usually cast in terms of the dividing line between the "operational" matters for which agencies are responsible and the "policy" matters which fall to ministers. Some critics of the agency system believe that no clear distinction can be drawn: others that ministers abuse the division by classifying all blunders as operational failures, and all successes as triumphs of policy.

Coercive power

Both sets of critics have a point. It is most telling in those areas, such as the penal system, which involve the coercive power of the state. As has been

The most troubling issue is the use of subsidies to encourage production for international markets - above all in sectors already burdened with excess capacity. Doubts are particularly acute in the case of VW's plants, which the company says would not have gone ahead without the promised aid. Projects so heavily dependent on state support threaten to distort markets, discriminate against other EU producers and increase pressure on other governments to come up with matching subsidies.

The risk for the German government is that in its eagerness to subsidise investment in eastern Länder, it will repeat Italy's attempts to establish heavy industries in the Mezzogiorno at vast cost in the 1960s and 1970s.

Problem exacerbated

In Germany's case, the problem has been greatly exacerbated by the explicit goal of raising living standards in the east to western levels. Judged narrowly, that policy has been remarkably effective - but at a crippling price. Much of the east's prosperity is due to large transfers from the west, while wages are far above those in central Europe. Radically to cut transfers could bring the eastern German economy to its knees. But while they continue artificially to inflate living standards and costs, productive investment will remain hard to attract on competitive terms.

Bonn is largely responsible for creating this dilemma. It should also take responsibility for finding solutions. These will not be easy. Trying to export the problem by resorting to excessive industrial subsidies at EU partners' expense is no answer. That would undermine the single market - of which Bonn claims to be a fervent proponent - and conflict with Germany's commitment to promoting further political and economic integration of the EU. German authorities need to exercise more rigorous fiscal self-discipline. If they fail to do so voluntarily, Brussels should remain ready to crack the whip.

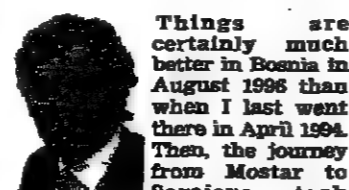
Greater efficiency

But it would be wrong to rush on to a rejection of the agency system in general. It has already proved its worth by bringing greater efficiency and transparency to the operations of government. Even in the prison service, it has led to practical reforms and improved conditions. And the problems that have arisen after the introduction of agency status often owe their origins to decades of poor administration. The only difference is that such problems are now more visible, instead of being hidden behind Whitehall's chronic lack of accountability.

The problems of blurred responsibility that arise in practice are issues to be resolved by fine-tuning, not by a wholesale rejection of the agency system. In particular, agency heads must regard it as part of their duties to alert ministers to politically significant developments in time for them to react as guardians of the public interest. To the extent that clear, early warning was not given in the most recent case, the management of the prison service must be held responsible.

At the same time, ministers must resist the temptation to wash their hands of all difficult problems by classifying them as "operational". The history of Mr Howard's relationship with the prison service suggests that he has not always avoided that temptation in the past.

Hard cases make bad law. The prison service, with its coercive role and legacy of governmental neglect, is a particularly hard case. But the problems it raises should not be allowed to obscure the gains of the agency system. By highlighting the issue of responsibility, the new system is a step towards accountable government, rather than away from it.



Things are certainly much better in Bosnia in August 1996 than when I last went there in April 1994. Then, the journey from Mostar to Sarajevo took three days, including one spent trying to get on a United Nations relief flight at Split. When that failed, I had to fly to Zagreb, get a Croatian taxi through Hungary to the Serbian border, another to meet me there and take me to Belgrade, and a third through the Serb-held part of Bosnia to the outskirts of Sarajevo, where I hitched lifts in a series of UN vehicles to reach the city centre. Once there, I found myself surrounded by a Serb blockade, imposed in retaliation for the first Nato air strikes on Serb forces besieging Gorazde. The Holiday Inn, where the international press corps was holed up, was a bleak and gloomy place, badly damaged by shells, with only intermittent electricity and running water. The streets were almost empty, as any pedestrian or unarmoured vehicle could be a target for snipers. Needless to say, conditions for Sarajevo's resident population were far worse; and even they were safer and better fed than people in many other parts of the country.

Now, Mostar is an easy day trip from Sarajevo by road, the worst hazard being a 15-minute wait where a broken bridge has to be circumvented by a one-way dirt track running up into a side valley. Similar conditions prevail throughout the country.

Freedom of movement prevails for foreign visitors, and not only for Bosnians. But it is not considered wise to cross the "inter-entity boundary line" with a local number plate. Bosnian or Croatian plates would be an almost certain target for violence if spotted in "Republika Srpska", the Bosnian Serbian "entity". And no one driving with Serb or Yugoslav plates would feel really safe on the territory of the Moslem-Croat Federation.

Sarajevo itself bustles with life and traffic. The Holiday Inn has been repaired. One can breakfast on the balcony, or saunter into town for an evening meal - pleasures only dreamed of in 1994. Moreover, the hotel is full, and journalists are only a small part of the clientele. Muscular young Americans, here to "equip and train" the Bosnian army, rub shoulders - or compete for rooms - with Nobel prizewinners attending a UN-sponsored conference organised jointly by the Bosnian and Croatian Academies of Sciences.

The spending power of expatriate do-gooders is clearly the locomotive of economic recovery. Every building in the town centre seems to house one or more of the organisations - governmental, inter-governmental, non-governmental - which have rushed to join in the great enterprise of rebuilding Bosnia. Their tasks range from organising next month's elections to painting the walls of orphanages.

Several are engaged mainly in criticising each other's work, or squabbling viciously over who does what. Bosnians themselves react with a mixture of gratitude, bewilderment, and cynical calculation of how best to exploit these squabbles to further their own private or party interests.

Bosnia is still legally a sovereign state with its own government. Under the Dayton peace agreement, however, that state is being remodelled under a kind of international protectorate, and the elections to be held on September 14 constitute a crucial stage in the remodelling.

Formally, Bosnians are going to elect the authorities of the two "entities" with a light structure of national government sitting awkwardly on top. Things are further complicated by the fact that one of the entities is itself a federation, run by an authority in which Moslems and Croats will have carefully weighted shares of power. However, much of the role of government will be devolved to ethnically weighted "cantons".

That is in theory. In practice the federation, proclaimed in 1994 as part of an agreement to end Moslem-Croat fighting, does not

yet exist, and many doubt if it ever will. At best the Moslems and Croats form an uneasy alliance against the Serbs. In areas of Croat predominance - mainly in the west, but including the Orasje pocket in the north - the Bosnian fleur-de-lis flag is nowhere to be seen.

Instead one sees everywhere the chequered shield of the puppet Croat state of Herceg-Bosna, even on police uniforms. It is also behind the desk of Mr Ivan Prskalo, the new mayor of Mostar - a city theoretically united under EU administration but in practice split between Croat west and Moslem east. Mr Prskalo, an ostensibly non-political Croat who formerly ran a public utility company, was unanimously chosen earlier this month - after protracted negotiations - by the new city council.

Sir Martin Garrod, the EU special envoy in Mostar, is pledged to "get rid of the climate of fear and intimidation which exists in Mostar today" before handing over to the city council on December 31. But his chances of succeeding seem slender.

Apart from getting policemen from the two sides to ride around together on joint patrols, the Western European Union police unit has hardly begun the task of reunifying the city police force. On the Croat side, at any rate, there is little doubt that both the police and the ruling party - a branch of President Franjo Tudjman's Croatian Democratic Union - are deeply involved in intimidation and violence, especially against those few Moslems or Serbs who venture into the west of the city.

Under the latest of innumerable agreements extracted by international pressure from Mr

Bosnia: a complicated new structure

How the government will be made up



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Tiger's teeth

How very noble of Japan's foreign ministry to foot the bill to ferry delegates from 46 countries and a clutch of United Nations agencies all the way to Tokyo this week for a discussion about how Africa can catch up with East Asia and become the "tiger economy" of the 21st century.

The big guns had been rolled out. Hisashi Owada, father of Crown Prince Masako and Japan's ambassador to the UN, chaired yesterday's meeting. After a day's jolly in Kyoto, the diplomats return to meet foreign minister Yukihiko Ikeda.

None of the delegates are actually based in Africa, mark you, but tend to be the permanent UN representatives of those countries - and of other places such as Indonesia, Cambodia, Laos and Malta.

No connection surely, with the fact that Japan is competing next month with India for one of Asia's seats on the UN security council? The votes of those gathered in Tokyo would certainly see it safely in the chair - and India was notably

Grubbing around

After lying low for the past few years, Quebec's language police are again on the prowl for naughty merchants disobeying la belle province's French-first language law. Their target this time - kosher food. Although Montreal's Jewish community is overwhelmingly English-speaking, the Office de la Langue Française disapproves of New York imported kosher food lacking French labels.

This is passionate stuff: several stores were forced to remove offending products from their shelves last Passover. Jewish groups threatened to

assert their human rights in court. An uneasy truce has now been reached. The authorities will grant an exemption from the law, but only for 40 days before and 30 days after Passover. Neither side is happy. The Canadian Jewish Congress is particularly disgruntled. It's worried it will be cast in the role of language cops' inspectorate for the other 305 days.

Cop an eyeful

It's such a chore, betting with violent student protesters. But worse is to come for South Korea's police. Now they are being asked to crack down on - if that's the right expression - microskirts and other sexy clothes worn by young Korean women. The National Police Agency says "risqué" dress is responsible for a rise in rape and other sexual crimes. Women revealing "too much leg" or wearing clothes that do not properly cover the breasts or other "intimate" areas will be warned with a citation. Those caught behaving in "an overtly affectionate manner in public" will be fined.

At least South Korea's finest have some essential expertise - many are facing allegations of sexual harassment of the 1,500 female students they arrested at a demonstration at Seoul's Yonsei University last week.

Tudjman and his Bosnian counterpart, Mr Alija Izetbegovic, Herceg-Bosna is supposed to dissolve itself by the end of this week. At the same time, the Bosnian government is to hand over some of its powers to the federation.

There is little sign of either of these happening, but last week the HDZ and Mr Izetbegovic's Party of Democratic Action also reached a "gentlemen's agreement" guaranteeing freedom of expression and association - tacitly admitting the lack of such freedom in their territories.

On the Bosnian Serb side things are simpler, since the Serb Democratic party has control of the whole territory. It seems, if anything, to have been strengthened rather than weakened by the forced abdication of Mr Radovan Karadzic, its former leader who has been indicted for alleged war crimes. The Serbs do not have to bother with cantons, and will elect their president directly - almost certainly Mrs Biljana Plavsic, Mr Karadzic's fervent admirer and designated heir.

The elections are being run by the Organisation for Security and Co-operation in Europe, whose head of mission, Mr Robert Frowick, yesterday announced the postponement of local elections, due to be held on the same day, because the Serbian authorities abused the registration system to ensure Serb majorities in formerly Moslem towns.

The organisation has established offices in all parts of Bosnia and will employ hundreds of expatriate election supervisors. They in turn will be observed by hundreds of monitors, some reporting to their national governments, some to the organisation's chairman, who is Mr Flavio Cotti, the Swiss foreign minister.

For the Nato-led implementation force, is increasing its visibility as election day approaches, in the hope of providing greater security. But Mr's commanders remind all-comers that they are not responsible for public order.

That is down to the local police, with the notional assistance of the small UN international police taskforce. This force is very obliging in giving lifts to journalists but can do little to ensure genuine freedom of movement for Bosnians, or to protect them when the local police is, for ethnic or other reasons, unsympathetic.

Thus there is a real danger that life will find itself watching idly, from heavily armoured vehicles, while voters are attacked with impunity. Some OSCE officers believe this danger could have been avoided by closing the border between the two entities and setting up special polling stations to allow people who have not applied for absentee ballots to vote in their original home constituencies without going there.

But this suggestion was firmly stamped on by Mr Carl Bildt who is charged with overall co-ordination of the civilian side of the Dayton agreement. To deny displaced Bosnians the right to vote in their original homes would be too flagrant an admission that the international community has failed to ensure freedom of movement.

Things may be better than they were in 1994 but, no matter how or where people vote, Bosnia will not return to the rich ethnic mosaic it was before 1992.

Financial Times

100 years ago

Riot in Constantinople
Constantinople, 28th August
At half past one this afternoon a band of about forty men armed with revolvers and bombs forced their way into the Ottoman Bank, killing a number of gendarmes guarding the building, and then shut the doors. The invaders posted themselves at the windows and on the roof of the bank and thence began firing their revolvers at the police. The latter returned the fire and a regular fusillade was kept up on both sides. There seems no doubt that the rising is the work of the Hittchakist Armenians.

50 years ago

London Fur Sales
The first of several consignments of Russian furs has arrived in London on the Soviet vessel Sestroretsk, the unloading of which has been nearly completed. These furs are arriving for the auction to be held in the Beaver Hall on 1st October and have been shipped under the agreement signed between the Russian Government and Messrs. Anning Chadwick and Kiver, Ltd. (fur auctioneers) whereby the latter were given sole brokerage rights. In effect, this transferred the world market for Russian furs from Leningrad to London.

UK row erupts over fate of Iraqi hijackers

By Victor Tappin and William Lewis at Stansted and Jimmy Burns in London

A political row broke out yesterday over the fate of Iraqi hijackers of a Sudanese airliner who surrendered to police at London's Stansted Airport after freeing the 199 passengers and crew.

Last night Conservative MPs Mr David Howell and Mr Terry Dicks urged the government to expel the suspected hijackers, who were armed with imitation explosives and knives.

However, Mrs Emma Nicholson, the Liberal Democrat MP who chairs the all-party parliamentary group on Iraq, said such action could risk the assassination by President Saddam Hussein's regime.

Seven men and six women relatives were arrested, and two children taken into police care.

After the safe evacuation of the Sudan Airways jet yesterday, Mr John Burrow, chief constable of Essex, said the suspected hijackers had requested the presence of the Iraqi Community Association, a London-based exile group.

The community association has charity status under UK law and has received grants of more than £80,000 from Labour and Conservative councils.

Meanwhile, the Iraqi National Congress, the main Iraqi opposition group based in London, said it had received information that one of those on board the airliner was a diplomat at the Iraqi embassy in Khartoum, where the flight originated.

It could not confirm whether the diplomat had been involved in the hijacking.

Negotiations to free the hostages, which took about eight hours, followed the overnight hijack of the Sudanese Airbus

AS10 en route from Khartoum to Amman in Jordan.

After the pilot was ordered to divert to Larnaca, Cyprus, the aircraft was refuelled and the hijackers demanded to be flown to the UK where they said they hoped to be granted political asylum.

They began to release hostages in groups of 10 at about 6.30am yesterday, two hours after the airliner landed at Stansted. The phased release continued until about 1pm when the crew were the last to leave the aircraft.

The hostages, mainly from Sudan and the Middle East, did not appear to have been ill-treated, although two passengers with heart conditions were taken to hospital.

The Home Office said any criminal proceedings would take precedence over asylum applications.

Fleeing Iraqis head for London, Page 5

US ambassador Robert Frowick, who represents the Organisation for Security and Co-operation in Europe which is responsible for the elections, said: "I have made a chairman's decision that it is not feasible to hold municipal elections on September 14."

The postponement was in response to evidence that Bosnian Serb authorities and the Serbian regime of President Slobodan Milosevic had manipulated the registration of tens of thousands of Serb refugees in Serb-led Yugoslavia. They had sought to gain votes by engineering a Serb majority in areas that were mostly Muslim before the Serb onslaught.

The electoral engineering was made possible by a provision in the Dayton agreement allowing refugees and displaced persons to vote in places where they intend to live or where they used to live.

Diplomats said refugees were pressed to register in strategic towns now held by Serbs, in particular Srebrenica, whose Muslim defenders were killed a little over a year ago after surrendering to Serb forces, and Brcko in the north east, on a corridor joining Serb-held lands.

Most refugees who registered to vote in the disputed Serb-held towns had lived in territory now belonging to the Muslim-Croat Federation.

Bosnian Serb leaders and their nationalist counterparts elsewhere in former Yugoslavia see the Dayton plan as enforcing the partition carved out over four years of war, ignoring its provisions for the return of more than 2m displaced people.

A Bosnian Serb official said yesterday that Bosnian Serbs were likely to hold the poll regardless of the decision.

Web of protection, Page 11

Bosnian municipal elections postponed

By Laura Silber in Belgrade

Bosnian municipal elections were postponed yesterday because of alleged irregularities by Serb authorities in registering voters. The elections had been planned to coincide with the first national poll since the country's civil war.

However, national elections will go ahead as planned in spite of concerns that their credibility could be undermined by the flawed electoral register. The international community is anxious to stick to the timetable outlined by the Dayton peace agreement despite the absence of freedom of movement in most parts of the war-torn country.

The national poll is seen as a crucial test of prospects for building joint governing institutions aimed at uniting Bosnia's two halves - the Bosnian Serb entity and the Muslim-Croat Federation.

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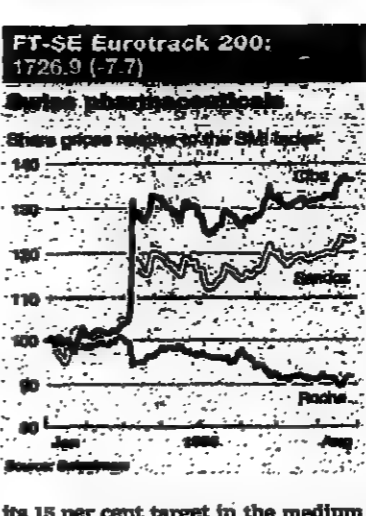
Web of protection, Page 11

Lifeline for Lloyd's

Lloyd's appears to have secured itself a future. The successful US court appeal yesterday should allow the passage of its reconstruction plan later this week, closing the chapter on five miserable years and \$2bn (\$12.4bn) losses. At issue now is the shape of that future. Initially, it may be a baptism of fire. There are increasing concerns about the soft state of the market, and 1997 and 1998 may prove difficult years.

Longer term, there are grounds for optimism. For all the bad publicity, the Lloyd's brand remains a powerful asset. Many Names are justifiably bitter, but policyholders have had a happier time. Lloyd's has never defaulted on a pay-out, and its good name still generates quality business. Record results in 1993 also show that Lloyd's remains capable of generating good profits.

But to whom will these profits accrue? The advent of corporate capital is dramatically changing Lloyd's capital structure. Many individual Names continue to expose themselves to unlimited liability, but the trend in the market is towards larger, consolidated groups. Mergers have also started to bring capital and underwriters under the same roof, making Lloyd's increasingly resemble a conventional insurer. Listed insurance vehicles have benefited from this state of activity, but the benefits to Lloyd's itself are less clear. Better management and risk control will help avoid the more egregious errors of the past. But the outcome may be to stifle the flexibility and innovation which won Lloyd's its name.



defensible, but not both. The real joke, however, is the performance criteria attached to the options: they can be exercised as long as GEC's share price beats the FT-SE 100 average by 10 per cent in any six months within a specified three-year time period. Even the much-loved British Gas, which has underperformed the FT-SE 100 by 52 per cent in the past three years, managed to outperform it by 13 per cent in the last six months of 1994. With a hurdle that weak, GEC might as well not have bothered with any.

Mr Simpson's package presents shareholders with a dilemma. At next week's annual meeting they will have no opportunity to vote against his contract - only a chance to vote on his appointment to the board. Many shareholders believe he is the man to put some pep into GEC's share price and will not want to risk losing him. If he succeeds, the gains could be measured in billions of pounds. But if investors let this pass, the implicit message is that powerful companies can ride roughshod over painstakingly established corporate governance principles. GEC must come up with a good justification for Mr Simpson's package or alter it.

Prudential

The Prudential was apparently hoping to lure trade buyers out of the woodwork when it said it planned to float its M&G Re subsidiary. The ploy has worked well: the £1.75bn (\$2.71bn) sale price is around 30 per cent more than it could have hoped for from a flotation; moreover, it gets all the money upfront rather than in tranches. If the stock market was less than euphoric, it is largely from concern about how the Pru will spend the cash. The group's aim is to buy either a mutual life group or a building society. Investors see sense in the former, as overlapping costs could quickly be cut; buying a society is less obviously attractive as few costs could be cut. In both cases, the Pru is dealing with mutuals and so has to woo them patiently - hostile bids are not an option. Investors will not want the Pru to overpay by rushing a deal. But if it cannot redeploy the cash fairly quickly, pressure may mount for a share buyback.

GEC

The contract GEC is giving Mr George Simpson, its incoming chief executive, makes a mockery of the whole corporate governance debate. Mr Simpson is being granted both a big salary - some £1.2m including pension contributions - as well as a huge wedge of shares and share options. One or other would be

Asda

Only a year ago, brokers were arguing that if Asda's chief executive Mr Archie Norman left, the food retailer's shares would plummet. Mr Norman might therefore feel insulted by the modest decline in Asda's shares yesterday - the bulk of the fall was due to the shares going ex-dividend - after he announced a scaling down of his involvement in the company when he becomes chairman. The restrained reaction does not reflect criticism over his achievements at the company, which had been nicknamed *disAsda* before he joined in early 1992. Asda shares have since outperformed the stock market by over 100 per cent. The response is more a recognition that having rebuilt Asda's balance sheet and its brand, the company no longer needs a trouble-shooter. Mr Norman's elevation to chairman makes for a smooth and sensible management transition. But it means it would no longer be surprising, or particularly damaging, if the politically-ambitious Mr Norman turned his mind to more challenging turnaround situations like the Tory party.

Russian business attacks plan to tax bank accounts

By Chrysota Frelund in Moscow

Russia's business community yesterday accused the Kremlin of everything from "stupidity" to "Marxism" over proposals to tax all personal bank deposits and withdrawals and tighten restrictions on businesses' cash withdrawals.

The proposals are contained in two presidential decrees aimed at clamping down on tax evasion: the International Monetary Fund last month suspended a loan payment to Russia, citing poor tax collection. Most economists claim sagging revenues pose the biggest threat to economic recovery.

However, the uproar over the new rules has been so intense that Mr Alexander Livshits, the minister of finance, has made a special television

appearance to try to calm public concerns.

Russian and western entrepreneurs and politicians yesterday said the decrees were a reversion to the crude Soviet style of economic management and could drive businesses further underground into the black economy.

"It is absolutely ridiculous; they haven't thought things through at all," a senior partner at one major western consultancy firm said.

Kommersant, Moscow's leading business daily, went even further, declaring in a headline yesterday: "The Minister of Finance has kept his promise to become a Marxist."

The decrees are vaguely worded and may not come into force until further laws have been passed by the parliament.

The proposal to tax bank personal bank account deposits

and withdrawals was absurd, said Mr Andrei Potseuliev, a partner at Accounting Services, a Russian consultancy firm. "It means that you could pay taxes on the same money three times: once when you earn it, a second time when you deposit it in the bank, and a third time when you withdraw it."

The decrees also seek to tighten existing legislation which allows companies to withdraw cash from bank accounts only in order to pay for wages, business trips and small operating costs.

The chorus of objections to the proposals could force a presidential climbdown with senior politicians calling into question the legality of the new rules, arguing that presidential decrees do not have the authority to override existing legislation.

US nappy producers go head-to-head

Continued from Page 1

move for us. It doubles our market share in France, makes us number two in diapers in Europe and gives us the opportunity to expand market share further."

Kimberly-Clark's entry to the UK, Dutch, Swiss, French and Belgian markets in 1994 triggered a cut-throat "nappy war" in which prices fell by 50 per cent and advertising and promotion spending rose by more than 50 per cent in markets with little or no volume growth. Kimberly-Clark claims a 24 per cent share of the UK market - but appar-

ently struggled in France. SCA, Europe's biggest producer of own-label nappies for retailers, said it could no longer support the losses it suffered in the branded sector. Its branded nappy operations are now confined to the Nordic countries and the Netherlands. Its Malmby hygiene division is to concentrate on own-label nappy production and other goods such as tampons and adult incontinence products.

The 80,000 tonne capacity plant at Prudhoe in Northumberland, which accounts for 16 per cent of UK tissue capacity, is SCA's first tissue

production base in Britain. SCA also acquired rights to the Kleenex toilet paper and kitchen paper brands in the UK and the Scotties and Handy Andy brands, making it Europe's second largest tissue products producer.

Kimberly-Clark had been forced by the European Commission to divest the Prudhoe operation as part of the EC's conditions for accepting the merger last January of Kimberly-Clark's and Scott Paper's European businesses.

SCA paid an undisclosed cash amount to Kimberly-Clark to balance the exchange deal.

FT WEATHER GUIDE

Europe today

Most of Europe will have rain and wind. Rain will arrive from the east in the Benelux by the end of the afternoon. Germany, the Czech Republic, Slovakia and the Alps will have rain and some thunder. Patchy cloud in France will bring a few showers. Eastern Spain will have showers, but western Spain and Portugal will be mainly dry. Thunder showers are expected in Italy. The Balkan states will have sunny periods. Greece and southern Turkey will also be sunny but northern Turkey will have showers. The Mediterranean will be mainly sunny.

Five-day forecast

Rain over western Europe will move northwards and become less intense. High pressure will bring improved conditions from the Atlantic towards western Europe.

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	31	Amman	28	Amsterdam	17
Accra	32	Ankara	25	Antwerp	16
Algiers	28	Athens	24	Arcade	15
Algeria	27	Baku	22	Batavia	14
Amman	28	Bangkok	30	Bombay	31
Amsterdam	17	Beijing	28	Buenos Aires	24
Antwerp	16	Berlin	18	Calcutta	32
Arcade	15	Birmingham	19	Cardiff	17
Batavia	14	Bombay	31	Cebu	30
Bombay	31	Buenos Aires	24	Dakar	29
Buenos Aires	24	Calcutta	32	Dallas	23
Calcutta	32	Cardiff	17	Dallas	23
Cebu	30	Dakar	29	Dallas	23
Dakar	29	Dallas	23	Dubai	32
Dallas	23	Dubai	32	Edinburgh	15
Dubai	32	Edinburgh	15	Fero	18
Edinburgh	15	Fero	18	Frankfurt	19
Fero	18	Frankfurt	19	Geneva	18
Frankfurt	19	Geneva	18	Glasgow	17
Geneva	18	Glasgow	17	Hamburg	16
Glasgow	17	Hamburg	16	Helsinki	15
Hamburg	16	Helsinki	15	Hong Kong	28
Helsinki	15	Hong Kong	28	Jersey	17
Hong Kong	28	Jersey	17	Kuala Lumpur	30
Jersey	17	Kuala Lumpur	30	London	18
Kuala Lumpur	30	London	18	Los Angeles	24
London	18	Los Angeles	24	Luoyang	26
Los Angeles	24	Luoyang	26	Madrid	25
Luoyang	26	Madrid	25	Manchester	18
Madrid	25	Manchester	18	Marseille	19
Manchester	18	Marseille	19	Medan	28
Marseille	19	Medan	28	Mexico City	21
Medan	28	Mexico City	21	Miami	28
Mexico City	21	Miami	28	Montreal	17
Miami	28	Montreal	17	Moscow	22
Montreal	17	Moscow	22	Murcia	20
Moscow	22	Murcia	20	Nairobi	24
Murcia	20	Nairobi	24	Naples	20
Nairobi	24	Naples	20	Nassau	26
Naples	20	Nassau	26	New York	27
Nassau	26	New York	27	Nice	19
New York	27	Nice	19	Nicosia	24
Nice	19	Nicosia	24	Osaka	21
Nicosia	24	Osaka	21	Paris	18
Osaka	21	Paris	18	Perth	20
Paris	18	Perth	20	Prague	18
Perth	20	Prague	18	Rangoon	31
Prague	18	Rangoon	31	Raykjavik	13
Rangoon	31	Raykjavik	13	Rio	28
Raykjavik	13	Rio	28	Rome	20
Rio	28	Rome	20	S. Francisco	27
Rome	20	S. Francisco	27	Singapore	31
S. Francisco	27	Singapore	31	Stockholm	18
Singapore	31	Stockholm	18	Stuttgart	19
Stockholm	18	Stuttgart	19	Sydney	21
Stuttgart	19	Sydney	21	Taipei	26
Sydney	21	Taipei	26	Tokyo	24
Taipei	26	Tokyo	24	Toronto	18
Tokyo	24	Toronto	18	Vancouver	21
Toronto	18	Vancouver	21	Venice	20
Vancouver	21	Venice	20	Warsaw	23
Venice	20	Warsaw	23	Washington	28
Warsaw	23	Washington	28	Wellington	12
Washington	28	Wellington	12	Winnipeg	25
Wellington	12	Winnipeg	25	Zurich	18
Winnipeg	25	Zurich	18		

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COMPANIES AND FINANCE: EUROPE

Market trading lifts Handelsbanken

By Greg Mcivor
in Stockholm

Higher net commission income drove a 17 per cent increase in interim profits at Handelsbanken, one of Sweden's leading banks. Operating profits rose from SKr2.57bn to SKr3bn (\$455.7m), bolstered by a 2 per cent increase in net interest income, from SKr19.5bn to SKr19.97bn, on the back of higher lending and deposit volumes.

The earnings were in line with market expectations,

but Handelsbanken's most-traded A shares eased SKr1.5 to close at SKr140.

Mr Arne Martensson, chief executive, described the competitive climate as fierce. Margins had narrowed over the period, but recovered somewhat in May and June, as interest rates continued to fall.

He said Handelsbanken had not ruled out bidding for Statshypotek, Sweden's largest mortgage bank, when the state sells its 34 per cent stake. However, the holding has already been linked with

Northbanken, another of Sweden's big banks, and Mr Martensson hinted that Handelsbanken's priority was to carve a niche as the premier pan-Nordic bank.

Handelsbanken has already expanded into Norway and Finland, and Mr Martensson is keen to develop operations in Denmark.

The bank said net commission income rose from SKr1.27bn to SKr1.64bn, or 29 per cent, mainly because of larger volumes of stock market trading and of corpo-

rate finance and custodian security services. The bank said it was the market leader on the Stockholm stock exchange, with a 16 per cent share of total turnover.

Handelsbanken said profits would have been SKr230m higher had it adopted the recent practice of other Swedish banks of including bonds in their investment portfolios as current rather than fixed assets.

Net loan losses fell from SKr1.1bn to SKr892m, or from 0.8 per cent of lending to 0.6 per cent. Return on

equity climbed from 15.2 per cent to 18.4 per cent, and earnings per share rose from SKr7.52 to SKr9.70.

There was also a 10 per cent increase in costs, to SKr3.5bn. Excluding costs of acquisitions in Finland and higher depreciation in leasing operations at Handelsbanken's finance unit, the growth was 4 per cent.

The bank blamed a fall in other operating income, from SKr321m to SKr146m, on the removal of its real estate vehicle Närkebro, which was spun off.

MAN lifts pre-tax profit 21% for year

By Sarah Athaus
in Frankfurt

MAN, the German truck and printing machine manufacturer, yesterday posted a 21 per cent rise in provisional pre-tax profits for the year ended June 30, from DM272m to DM330m (\$223.2m). This allowed it to lift the payout from DM9.5 to DM12.

"The high - if not evenly distributed - level of orders on hand... as well as continued efforts to improve our competitive position in products and costs give MAN reason for confidence about fiscal 1996-97," the company said.

Order inflow rose 1 per cent to DM20.8bn for the first month of the current year. Orders on hand at June 30 came to DM17.6bn, up 4 per cent from a year earlier. Turnover rose 8 per cent to a record DM20.5bn.

MAN said profits growth for the current year also depended on a sustained recovery in the global capital goods industry. Demand in the sector overall had begun to pick up in the final quarter of last year.

The results matched company forecasts, and the shares surged DM16.7 to DM369.5. Analysts attributed the stock's sharp rise mainly to a correction from its recent slump amid a poor outlook for the engineering sector as a whole.

"The stock's surge is somewhat exaggerated; the results were not bad but the order inflow was a bit worrying," Mr Michael Hagmann, analyst at UBS in London, said.

Mr Hagmann said he was "cautiously optimistic" about the current year, noting that MAN's truck division, its largest, might be hurt by the introduction in the autumn of a new line of heavy trucks by rival Mercedes-Benz.

Mr Thomas Dorsch, analyst at Varelshank Research, predicted a rise in earnings per share from DM26 last year to DM28. Order inflow in the truck unit fell 3 per cent to DM7.5bn, hit by weak domestic demand. Pre-tax profits rose 24 per cent to DM360m.

MAN Roland, the printing machinery unit, suffered a 6 per cent decline in new orders to DM3.5bn. Exceptional costs connected with the launch of a new generation of printing machinery contributed to a loss of about DM30m. New orders for diesel engines rose 3 per cent to DM1.7bn.

MAN's diversified German engineering group, said it continued to expect higher earnings for 1996 after pre-tax profits rose 8 per cent to DM262m in the first six months. Pre-tax profits were DM620m in 1995. Interim sales climbed 8.5 per cent to DM3.9bn.

NEWS DIGEST

Continental posts two-fold increase

Continental, the German tyre company, doubled profits in the first half of this year and is confident of achieving marked rises in profitability in the second half and in 1997. Pre-tax profits rose by 107 per cent, from DM185m to DM190m (\$80.5m). All divisions performed well in spite of the uncertain economic conditions.

The company said "massive internal efforts" to cut costs and raise productivity contributed to the profit increase. Turnover showed an increase of only 1.3 per cent to DM5.1bn, with a 2.5 per cent improvement to DM10.5bn expected for the full year.

Reaffirming its drive to cut costs further and shift more production to the low-cost Czech Republic and Portugal, the company said the closure of a European plant "could not be excluded".

Andreas Fisher, Frankfurt

Air France Europe chief quits

Mr Jean-Pierre Courcol yesterday announced his resignation as managing director of Air France Europe, the domestic partner of Air France. His departure is due to the scrapping of plans to merge Air France Europe and the state-controlled airline's European operations. The two airlines plan instead to merge by spring 1997. On the basis of 1995-96 figures, the merger would create a company with turnover of about FF50bn (\$9.80bn) and 47,000 employees.

Mr Courcol said the "formidable economic war being waged between the leading world airlines and the current situation of Air France Europe" had convinced him the merger had become "the only way to maintain jobs and complete the restructuring".

David Owen, Paris

AssiDomän warns on prices

AssiDomän, the Swedish forestry products group, warned yesterday of a fresh downturn in wood pulp prices after several months of gradual increases.

Mr Lennart Ahlgren, chief executive, said growing demand for pulp was being reflected in higher inventories and he could not rule out the risk of renewed price erosion.

The comments came as AssiDomän blamed lower prices for a 48 per cent slump in interim profits. First-half pre-tax profits slid from SKr2.4bn to SKr1.2bn (\$182m), in line with analysts' expectations, reflecting the problems faced by most of Scandinavia's forestry companies in maintaining profitability in the face of lower pulp and paper prices. AssiDomän's shares rose SKr3.5 to SKr167.

Turnover declined from SKr11.4bn to SKr10.2bn, a fall of 10 per cent.

Greg Mcivor, Stockholm

VNU ahead at operating level

VNU, the Dutch publishing and information services group, yesterday announced first-half net earnings down from F1143m to F1143m (\$86.8m), due to an extraordinary profit last year from the sale of its US financial information subsidiary, Disclosure.

Without this, the profit increased by 13 per cent to F1143m, on turnover 14 per cent higher at F11.78bn (including sales by non-consolidated companies). The operating result, which also included income from such companies, was ahead 9 per cent to F1208m.

Business information divisions both in the US and Europe turned in a solid performance, but the commercial broadcasting operation, which includes the Benelux TV stations RTL4 and VTM, is not expected to improve this year.

VNU expects to maintain its 13 per cent growth rate through the second half of the year.

David Brown, Amsterdam

Parmalat issue successful

A L464bn (\$304.8m) capital raising operation by Parmalat, the Italian dairy products group, was successfully closed yesterday. In addition to a rights issue of 246m new shares at L1.500/share, which achieved a 99.6 per cent take-up, L95bn was raised through conversion of warrants. The group will use the new funds to finance acquisitions and reduce indebtedness, which at year-end 1995 stood at L1,096bn.

David Lane, Rome

East Asiatic turnover up 11%

Denmark's East Asiatic Company, which has extensive trading interests in East Asia, reported an 11 per cent increase in turnover from DKr10.35bn to DKr11.21bn (\$1.96bn) in the half year to June 30. Profits before tax increased 7 per cent, from DKr12m to DKr178m. Mr Michael Florin, managing director, said that the group's bulk shipping produced a disappointing result, and that conditions in timber trading were difficult. He predicted an improvement in full-year earnings.

Hilary Barnes, Copenhagen

Swiss Re reconnects former offshoot

The purchase of M&G Re makes the reinsurer the world leader in health and life business

Swiss Re's purchase of Mercantile & General Re is a trip down memory lane for the world's second-biggest reinsurer. This year is the 80th anniversary of Swiss Re's acquisition of majority control of M&G, and the UK insurance company remained inside the Swiss Re empire for more than 50 years before being sold in 1968.

Mr John Coomber, 47, a Briton who heads Swiss Re's life operations, says it is mere coincidence that Swiss Re has bought back a company which it sold because it did not see eye to eye with the other shareholders. M&G Re is a "completely different company from the one we sold", he says. It has cleaned up its property and casualty business, which was the source of all its problems, and now has an attractive position as one of the leading providers of life and health reinsurance.

Mr Coomber also denies that Swiss Re was rushed into spending the bulk of the SF5.5bn (\$4.6bn) it raised from last year's sale of its direct insurance operations by the rapid pace with which rivals were snapping up smaller competitors. "We may have finished last, but

we were not the last to start," says Mr Coomber, commenting on the busiest period for takeovers in the history of the reinsurance industry.

Swiss Re, which depends heavily on reinsuring property and casualty risks, had been keen to expand in the more stable area of life and health reinsurance. Already number two after Munich Re, the acquisition of M&G Re will make it the market leader. It will have combined premiums of SF4.1bn, and the proportion of its business in life and health rises from 17 per cent to 27 per cent.

The deal also strengthens Swiss Re's position in the US reinsurance market, where it was in danger of falling behind after the recent spate of mergers.

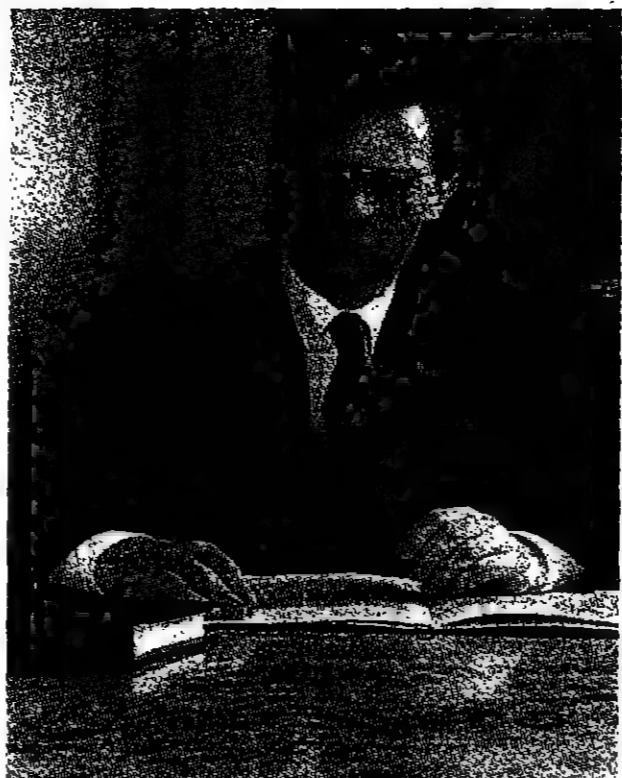
It will have annual US premiums of \$3.3bn a year and, although it still ranks behind Employers Re (\$3.8bn in the US), and National Re (\$3.6bn), it will be considerably bigger than its old rival, Munich Re, which is taking over American Re. Swiss Re will also be the market leader in medical expense reinsurance.

Although Swiss Re is paying a handsome premium to

book value, it believes that by putting the two businesses together it can save money in areas such as investment management, and the need for extra reinsurance will be reduced. While it is reluctant to put a figure on the potential synergies, some analysts suggest the benefit could be as much as \$500m (\$778.5m). M&G Re, which had net income of \$148m and gross premiums of \$1.3bn in 1995, is earning 16 per cent on its equity and Swiss Re expects to earn a return on its investment of 13 per cent in the "near term".

Swiss Re is the last of the big three Swiss reinsurers to retain a Triple A rating from the credit rating agencies. Zurich Insurance and Winterthur have both been downgraded following recent acquisitions.

However, Mr Coomber says that Swiss Re had talked to the rating agencies and he would be "surprised" if it lost its rating. It had also investigated the quality of M&G's once-troubled property and casualty business and was reasonably confident that "no nasty legacies of the past" remained.



John Coomber: denies Swiss Re was under pressure

Swiss Re has underlined the importance of its latest acquisition by taking the unusual step of transferring Mr Coomber, a member of its executive management, to London to run the enlarged operation. M&G may have passed out of UK ownership,

but London will be the centre of Swiss Re's enlarged "life and health division", and will account for around a quarter of Swiss Re's reinsurance workforce.

Lex, Page 12

William Hall

Daimler-Benz weighs up managerial fat

The German automotive group is looking to reform its internal structure

After a year of unprecedented upheaval, marked by the sale of loss-making divisions and heavy job cuts, Mr Jürgen Schrempp, chairman of Daimler-Benz, is plotting the next phase of his internal revolution.

The company has commissioned research on the link between management structures and profitability. It concluded that "portfolio management" companies - where a small group of top managers exercises direct managerial and financial control of each business unit - are consistently more profitable than companies such as Daimler-Benz, where industrial divisions are financially and legally complex, with a managerial layer between the business units and group directors.

Examples of such top performers are General Electric of the US and ABB, the Swiss-Swedish power engineering group. Mr Schrempp has

frequently cited GE, and its focus on high financial returns, as an example for Daimler-Benz to follow.

The adoption of portfolio management marks a much more direct form of management, with fewer layers and a more hands-on relationship between head office and business units. It would acknowledge that the notion of an integrated technology concern - where business units fed off each other - has failed. It would also mark a change from a conservative hierarchical structure to the more chaotic style common in the US.

There are other issues. The most important is the future of Daimler's main units - Mercedes, Daimler-Benz InterService (Debia) - with a series of related questions: for example, the future of Mr Helmut Werner, chairman of Mercedes, and a former rival of Mr

Schrempp's for the top job. Indications are that the Daimler-Benz board is about to discuss internal structures in earnest. Whether this will lead to a formal abandonment of the units or simply a reshuffle of management responsibilities is not yet decided. Daimler may retain its legal structure for tax reasons, and restrict the reorganisation to the management.

The ultimate aim is to improve shareholder value, as even insiders now acknowledge that the company has badly neglected its investors for too long. A group of small shareholders even launched legal action against Daimler executives, charging that the management withheld relevant financial information at last year's annual general meeting.

At the same time, the company is facing pressure from staff and trade

unions, who fear Daimler-Benz is about to embrace capitalism in its rawest form. Daimler's highly controversial job-cutting programme last year did not help.

Perhaps the most symbolic instance of change has been the decision to introduce an executive stock option scheme, which has given rise to an uneasy debate inside the company's supervisory board about executive pay and how it affects the way the company is managed. The indications from within the company are that the scheme is only the first of many experiments.

More change is on the way. Mr Schrempp is unlikely to push Daimler-Benz all the way, if only because German law, business customs and politicians may not let him. He will have his work cut out even to get close.

Wolfgang Münchau

This information appears as a matter of record only.
The bonds described below have already been offered for sale.

July 1996

PHILIPS

Philips Electronics N.V.
Eindhoven, The Netherlands

DM 500,000,000
Commercial Paper Programme

Arranger
Dresdner Bank - Kleinwort Benson
Dresdner Bank Aktiengesellschaft

Dealers
Bayerische Landesbank Girozentrale
Commerzbank Aktiengesellschaft

Dresdner Bank - Kleinwort Benson
Dresdner Bank Aktiengesellschaft

Issuing and Paying Agent
Dresdner Bank Aktiengesellschaft

This information appears as a matter of record only.
The bonds described below have already been offered for sale.

August 27, 1996

PHILIPS

Philips Electronics N.V.
Eindhoven, The Netherlands

DM 300,000,000
5 1/2% Bearer Bonds of 1996/2001

Issue Price: 101.65%

Dresdner Bank - Kleinwort Benson
Dresdner Bank Aktiengesellschaft

Banque Nationale de Paris S.A.
Frankfurt Branch

BHF-BANK
Aktiengesellschaft

Commerzbank Aktiengesellschaft

Westdeutsche Landesbank Girozentrale

ABN AMRO Hoare Govett
ABN AMRO Bank (Deutschland) AG

Bayerische Landesbank Girozentrale

Bayerische Vereinsbank AG

HSBC Trinkaus
Wolfsburg & Hamburg AG

Kreditbank International Group

J. P. Morgan GmbH

Paribas Capital Markets
Banque Paribas (Deutschland) AG

UBS
Schweizerische Bankgesellschaft (Deutschland) AG

COMPANIES AND FINANCE: THE AMERICAS

AccuStaff eyes Europe after merger

By John Authers
in New York

AccuStaff, which will become the fourth largest US recruitment company once it has completed its acquisition of New York-based Career Horizons in a stock swap valued at slightly less than \$900m, said yesterday it would be looking to buy a European information technology consultancy "in the near future".

The company also forecast that consolidation in the

fast-growing US temporary staffing and recruitment market would intensify with the involvement of European acquisitions. Manpower and Kelly, the two largest US recruitment agencies, already have a large presence in Europe.

Both AccuStaff and Career Horizons had already grown swiftly. AccuStaff's turnover is projected to rise to \$772m this year, from \$677m in 1995, while Career Horizons' turnover is projected to have risen from \$355m to \$613m

in the same period.

Both companies are leading a sharp trend towards consolidation in the industry, which has roughly doubled in size since 1990. Recruitment companies are attempting to keep pace with the growing trend for companies to out-source professional functions such as information technology, accounting and legal services. They believe that consolidation is necessary if the industry is to expand successfully into these areas.

AccuStaff made clear that the deal was not the end of its acquisition spree, which has already seen it buy 33 recruitment companies since it floated in 1992. Mr Derek Dewan, AccuStaff's president and chief executive, said: "Our combined cash position, together with credit facilities, gives us the liquidity to make strategic and even larger acquisitions. The pipeline is full and both companies will accelerate on a united front the acquisition programme

before the merger is final."

Mr Michael Abney, the company's chief financial officer, said the company would look to acquire first more US information technology consultancies and recruitment agencies, and then a niche provider of professional services in the UK or continental Europe. Shares in the Nasdaq-quoted AccuStaff fell \$4 to \$24½, while Career Horizons, quoted on the NYSE, fell \$5 to \$36½ in early trading yesterday.

First of a new breed of telecoms operator

MFS WorldCom is set to spark an industry shake-out

The acquisition of MFS, a fast-growing US group specialising in telecommunications for business customers, had been anticipated for some months.

The surprise, when the deal was announced this Monday, was that the buyer was WorldCom, another aggressive US player, rather than one of the larger operators such as AT&T.

A second shock was the price. WorldCom agreed to exchange 2.1 of its shares for every MFS share, equivalent to a purchase price of about \$14bn. This for a company which will turn over about \$1bn this year, which lost \$277m last year, and may not break even before 1997.

Analysts may be divided over whether such a huge premium is justified, but there is little dissent from the view that MFS WorldCom, the company formed as a consequence of the deal, represents the first of a new breed of telecoms operator distinguished by agile, entrepreneurial management, low-cost modern local and long-distance infrastructure, and access to the Internet.

MFS WorldCom will be free of the legacy of the past - overweight management structures, obsolete technology and the blinkered outlook which encumbers traditional operators. As such it represents a serious threat to its longer established competitors in the US, Europe and Asia.

Dr David Cleevy, chairman of Analysts, a UK-based telecoms consultancy, says: "Companies like MFS WorldCom can strike a major blow against existing telecoms operators by burrowing into their heartland and removing

ing huge chunks of their business."

Mr Colin Williams, in charge of MFS's international operations, says: "We are moving at a pace 10 times as fast as conventional operators."

The two companies complement each other well. WorldCom, the fourth-largest US long-distance carrier, obtained its high capacity network through the \$2.5bn acquisition 18 months ago of WitTel, the telecoms arm of Williams Companies.

Over the past decade, WorldCom has acquired a large number of smaller long-distance companies, increasing the volume of calls on its lines and reducing its unit costs. Last year it had revenues of \$3.64bn and net income of \$267.7m and reckons to be one of the most efficient US operators.

While WorldCom chiefly leases capacity from other operators, MFS builds its own infrastructure. Since 1987, it has laid fibre optic networks in more than 49 US cities. In Europe it has laid fibre rings around London, Frankfurt, Paris and Stockholm. Its customers include BP, NatWest Bank and the Stockholm options market.

Mr Bernard Ebner, WorldCom's chief executive, says the deal will create: "The first full provider of business services" with the ability to carry calls "from the point of origination to the point of destination, internationally, over a single company's facilities".

What is perhaps more important is that MFS's fibre cables, which run directly to its customers' premises, give it control of the strategically important "local loop", the

final connection between the exchange and the customer.

Companies which do not own their own infrastructure in the local loop are dependent on their competitors to transport and deliver calls.

The new group plans to create fibre networks in 45 financial centres around the world over the next five years, giving it access to a substantial proportion of the world's economic activity.

The deal is a direct consequence of the US Telecommunications Act, signed earlier this year, which swept away the regulatory barriers between long-distance and local operators and created a host of opportunities for new competitors. It has already led to a rash of mergers between "Baby Bells", the regional operating companies which hitherto controlled local telephony in the US.

The primary opportunity for MFS WorldCom will be the liberalised US market. Neither company yet derives a significant share of its revenues from the European market. But the merged company will be ideally placed to compete for the role of leading independent carrier in Europe after the regulatory barriers come down in January 1998.

And the price paid for MFS may cause some reassessment of the value of companies such as City of London Communications (Colt) and Mercury Communications, which, like MFS, have their own infrastructure in the local loop.

Alan Cane and
Richard Waters

Canadian banks beat expectations

By Bernard Simon
in Toronto

Bank of Montreal and Bank of Nova Scotia kicked off the Canadian banks' reporting season yesterday with a 14 and 22 per cent rise respectively in third-quarter earnings. In both cases the outcome was slightly above analysts' forecasts.

The improvement at Bank of Montreal was largely due to stronger investment banking business, which offset narrower margins.

Mr Matthew Barrett, chief executive, also ascribed the record earnings to recent diversification, including this year's purchase of a 16 per cent stake in Bancamer, one of Mexico's biggest financial services groups.

Foreign operations now contribute 45 per cent of BMO's earnings, up from 32 per cent two years ago.

Net earnings rose to C\$300m (US\$218.8m), or C\$1.07 a share, in the three

months to July 31, from C\$256m, or 91 cents, a year earlier. Bancamer contributed C\$17m to the latest figure.

Return on equity climbed from 16.2 per cent to 17.3 per cent. Assets grew 12 per cent to C\$162.5bn on July 31.

Loan-loss provisions fell from C\$60m to C\$48m. The net non-performing loan portfolio shrank by C\$225m in the latest quarter to C\$450m.

Bank of Nova Scotia ascribed its advances to a broad-based improvement, including asset growth, gains from the sale of investment securities, higher underwriting fees and brokerage commissions.

Net earnings increased to C\$275m, or C\$1.04 a share, from C\$225m, or 86 cents. Return on equity widened to 16 per cent from 14.2 per cent.

Loan-loss provisions dropped from C\$125m to C\$95m. Non-performing



Matthew Barrett: recent diversification behind the advance

loans as a percentage of total loans are now at the lowest level since 1989.

Non-interest expenses surged almost 13 per cent, mainly reflecting a bigger payroll and a new incentive

plan. But the bank said expenses as a percentage of total revenues remained unchanged.

Assets totalled C\$158bn on July 31, up from C\$156bn a year earlier.

Argentine gas group raises \$255m

By Richard Lapper,
Capital Markets Editor

Transportadora de Gas del Norte (TGN), Argentina's privatised gas company, has raised \$255m in a so-called "single asset securitisation" deal designed to attract US institutional investors. The proceeds are being used to fund planned expansion of TGN's natural gas pipeline.

TGN sold some \$215m of 12-year notes to two special purpose trusts, structured by the IFC, the private sector arm of the World Bank. The trusts then offered securities, backed by the notes, to US insurance companies and other institutions.

In addition, the IFC is purchasing from TGN an additional \$40m of senior and subordinated convertible 18-year notes which it will hold on its own account.

The deal, signed by the IFC earlier this month, has been given an investment grade rating by Duff and Phelps and Standard & Poor's, making it available to a wider group of investors than would be able to buy conventional Argentine foreign currency bonds.

These are rated sub-investment grade by both agencies, as well as Moody's. The securitisation deal enjoys the same investment grade rating as Argentina's local currency debt, because holders of the paper should benefit from IFC's privileged access to foreign exchange.

The rating also reflects the underlying corporate credit quality of TGN.

ING Barings (US) and J.P. Morgan acted as placement agents for the trust certificates.

Computer Associates in Internet move

By Paul Taylor
in New Orleans

Computer Associates, the US-based business software group, has set up a new Internet unit called NetHaven designed to help business customers create, manage and promote multimedia corporate World Wide Web sites.

At the same time CA, which is holding its annual three-day users' conference in New Orleans, announced a strategic partnership with National Directory Company which lists 300,000 US busi-

nesses in its Yellow Pages NDC Donnelly Directories.

The two companies plan to put the contents of the Yellow Pages on the Web, providing thousands of smaller and medium-sized US companies with an initial Web presence carrying basic information such as home company name, address, contact particulars, one page of company-specific details and a fax-back service.

NDC customers will then be invited to upgrade to private Web sites with more sophisticated services such as online order-taking and

secure credit card processing for an additional fee. CA plans to provide similar services elsewhere.

"We are betting that a large group of NDC directory customers will want to upgrade their Web listings," says Mr John J. "Web" Ven, CA's president of the "World Wide Web" unit. "We can extend their core business technology for worldwide market reach," said Mr Ven. Subbarao, general manager of CA's new NetHaven division.

The formation of the new unit, which will draw upon the group's existing database

and enterprise management expertise, represents a significant push by CA into the Internet business market.

In particular CA, together with Fujitsu, the Japanese electronics group, has developed Jasmine, a sophisticated multimedia object-oriented database which enables users to create content-rich Internet and intranet applications including sound, video and graphics.

Separately CA announced new partnership agreements with Intel, the US semiconductor manufacturer, and Tandem Computers.

Resignation hits Rogers shares

By Bernard Simon

Shares in Rogers Communications dipped following news that the chief financial officer of Canada's biggest cable TV operator had quit.

Rogers, which is controlled by its founder Mr Ted Rogers, said Mr Graham Savage was leaving "to try something different" after 21 years with the company. The head of Rogers' cable TV arm quit earlier this year.

Rogers harboured ambitions to become a diversified multimedia conglomerate when it bought Maclean Hunter, a cable TV, newspaper and magazine group, in 1994. But it has recently moved to sell off non-cable businesses in an effort to pay down its C\$4.7bn (US\$3.43bn) debt.

Analysts have pinpointed Rogers' debt burden as a vulnerability in the race with telephone companies for

dominance of Canada's telecommunications market.

Rogers has an advanced broadband cable network and one of the highest penetrations among cable TV companies in the world.

Rogers Class B shares have fallen in the past year from a peak of C\$16.125 to a low of C\$9.10 following news of Mr Savage's departure on Monday. They recovered slightly to C\$9.25 at midday yesterday.

Prices for electricity delivered to the purposes of the electricity pooling and settlement arrangements in England and Wales					Prices for electricity delivered to the purposes of the electricity pooling and settlement arrangements in Scotland				
Period from 1 January to 31 March		Period from 1 April to 30 June		Period from 1 July to 31 December	Period from 1 January to 31 March		Period from 1 April to 30 June		Period from 1 July to 31 December
10 year average	Pool purchases	Pool purchases	Pool purchases	Pool selling	10 year average	Pool purchases	Pool purchases	Pool purchases	Pool selling
1996/97	9.94	9.94	9.94	9.94	1996/97	9.94	9.94	9.94	9.94
1997/98	9.94	9.94	9.94	9.94	1997/98	9.94	9.94	9.94	9.94
1998/99	9.94	9.94	9.94	9.94	1998/99	9.94	9.94	9.94	9.94
1999/00	9.94	9.94	9.94	9.94	1999/00	9.94	9.94	9.94	9.94
2000/01	9.94	9.94	9.94	9.94	2000/01	9.94	9.94	9.94	9.94
2001/02	9.94	9.94	9.94	9.94	2001/02	9.94	9.94	9.94	9.94
2002/03	9.94	9.94	9.94	9.94	2002/03	9.94	9.94	9.94	9.94
2003/04	9.94	9.94	9.94	9.94	2003/04	9.94	9.94	9.94	9.94
2004/05	9.94	9.94	9.94	9.94	2004/05	9.94	9.94	9.94	9.94
2005/06	9.94	9.94	9.94	9.94	2005/06	9.94	9.94	9.94	9.94
2006/07	9.94	9.94	9.94	9.94	2006/07	9.94	9.94	9.94	9.94
2007/08	9.94	9.94	9.94	9.94	2007/08	9.94	9.94	9.94	9.94
2008/09	9.94	9.94	9.94	9.94	2008/09	9.94	9.94	9.94	9.94
2009/10	9.94	9.94	9.94	9.94	2009/10	9.94	9.94	9.94	9.94
2010/11	9.94	9.94	9.94	9.94	2010/11	9.94	9.94	9.94	9.94
2011/12	9.94	9.94	9.94	9.94	2011/12	9.94	9.94	9.94	9.94
2012/13	9.94	9.94	9.94	9.94	2012/13	9.94	9.94	9.94	9.94
2013/14	9.94	9.94	9.94	9.94	2013/14	9.94	9.94	9.94	9.94
2014/15	9.94	9.94	9.94	9.94	2014/15	9.94	9.94	9.94	9.94
2015/16	9.94	9.94	9.94	9.94	2015/16	9.94	9.94	9.94	9.94
2016/17	9.94	9.94	9.94	9.94	2016/17	9.94	9.94	9.94	9.94
2017/18	9.94	9.94	9.94	9.94	2017/18	9.94	9.94	9.94	9.94
2018/19	9.94	9.94	9.94	9.94	2018/19	9.94	9.94	9.94	9.94
2019/20	9.94	9.94	9.94	9.94	2019/20	9.94	9.94	9.94	9.94
2020/21	9.94	9.94	9.94	9.94	2020/21	9.94	9.94	9.94	9.94
2021/22	9.94	9.94	9.94	9.94	2021/22	9.94	9.94	9.94	9.94
2022/23	9.94	9.94	9.94	9.94	2022/23	9.94	9.94	9.94	9.94
2023/24	9.94	9.94	9.94	9.94	2023/24	9.94	9.94	9.94	9.94
2024/25	9.94	9.94	9.94	9.94	2024/25	9.94	9.94	9.94	9.94
2025/26	9.94	9.94	9.94	9.94	2025/26	9.94	9.94	9.94	9.94
2026/27	9.94	9.94	9.94	9.94	2026/27	9.94	9.94	9.94	9.94
2027/28	9.94	9.94	9.94	9.94	2027/28	9.94	9.94	9.94	9.94
2028/29	9.94	9.94	9.94	9.94	2028/29	9.94	9.94	9.94	9.94
2029/30	9.94	9.94	9.94	9.94	2029/30	9.94	9.94	9.94	9.94
2030/31	9.94	9.94	9.94	9.94	2030/31	9.94	9.94	9.94	9.94
2031/32	9.94	9.94	9.94	9.94	2031/32	9.94	9.94	9.94	9.94
2032/33	9.94	9.94	9.94	9.94	2032/33	9.94	9.94	9.94	9.94
2033/34	9.94	9.94	9.94	9.94	2033/34	9.94	9.94	9.94	9.94
2034/35	9.94	9.94	9.94	9.94	2034/35	9.94	9.94	9.94	9.94
2035/36	9.94	9.94	9.94	9.94	2035/36	9.94	9.94	9.94	9.94
2036/37	9.94	9.94	9.94	9.94	2036/37	9.94	9.94	9.94	9.94
2037/38	9.94	9.94	9.94	9.94	2037/38	9.94	9.94	9.94	9.94
2038/39	9.94	9.94	9.94	9.94	2038/39	9.94	9.94	9.94	9.94
2039/40	9.94	9.94	9.94	9.94	2039/40	9.94	9.94	9.94	9.94
2040/41	9.94	9.94	9.94	9.94	2040/41	9.94	9.94	9.94	9.94
2041/42	9.94	9.94	9.94	9.94	2041/42	9.94	9.94	9.94	9.94
2042/43	9.94	9.94	9.94	9.94	2042/43	9.94	9.94	9.94	9.94
2043/44	9.94	9.94	9.94	9.94	2043/44	9.94	9.94	9.94	9.94
2044/45	9.94	9.94	9.94	9.94	2044/45	9.94	9.94	9.94	9.94
2045/46	9.94	9.94	9.94	9.94	2045/46	9.94	9.94	9.94	9.94
2046/47	9.94	9.94	9.94	9.94	2046/47	9.94	9.94	9.94	9.94
2047/48	9.94	9.94	9.94	9.94	2047/48	9.94	9.94	9.94	9.94
2048/49	9.94	9.94	9.94	9.94	2048/49	9.94	9.94	9.94	9.94
2049/50	9.94	9.94	9.94	9.94	2049/50	9.94	9.94	9.94	9.94
2050/51	9.94	9.94	9.94	9.94	2050/51	9.94	9.94	9.94	9.94
2051/52	9.94	9.94	9.94	9.94	2051/52	9.94	9.94	9.94	9.94
2052/53	9.94	9.94	9.94	9.94	2052/53	9.94	9.94	9.94	9.94
2053/54	9.94	9.94	9.94	9.94	2053/54	9.94	9.94	9.94	9.94
2054/55	9.94	9.94	9.94	9.94	2054/55	9.94	9.94	9.94	9.94
2055/56	9.94	9.94	9.94	9.94	2055/56	9.94	9.94	9.94	9.94
2056/57	9.94	9.94	9.94	9.94	2056/57	9.94	9.94	9.94	9.94
2057/58	9.94	9.94	9.94	9.94	2057/58	9.94	9.94	9.94	9.94
2058/59	9.94	9.94	9.94	9.94	2058/59	9.94	9.94	9.94	9.94
2059/60	9.94	9.94	9.94	9.94	2059/60	9.94	9.94	9.94	9.94
2060/61	9.94	9.94	9.94	9.94	2060/61	9.94	9.94	9.94	9.94
2061/62	9.94	9.94	9.94	9.94	2061/62	9.94	9.94	9.94	9.94
2062/63	9.94	9.94	9.94	9.94	2062/63	9.94	9.94	9.94	9.94
2063/64	9.94	9.94	9.94	9.94	2063/64	9.94	9.94	9.94	9.94
2064/65	9.94	9.94	9.94	9.94	2064/65	9.94	9.94	9.94	9.94
2065/66	9.94	9.94	9.94	9.94	2065/66	9.94	9.94	9.94	9.94
2066/67	9.94	9.94	9.94	9.94	2066/67	9.94	9.94	9.94	9.94
2067/68	9.94	9.94	9.94	9.94	2067/68	9.94	9.94	9.94	9.94
2068/69	9.94	9.94	9.94	9.94	2068/69	9.94	9.94	9.94	9.94
2069/70	9.94	9.94	9.94	9.94	2069/70	9.94	9.94	9.94	9.94
2070/71	9.94	9.94	9.94	9.94	2070/71	9.94	9.94	9.94	9.94
2071/72	9.94	9.94	9.94	9.94	2071/72	9.94	9.94	9.94	9.94
2072/73	9.94	9.94	9.94	9.94	2072/73	9.94	9.94	9.94	9.94
2073/74	9.94	9.94	9.94	9.94	2073/74	9.94	9.94	9.94	9.94
2074/75	9.94	9.94	9.94	9.94	2074/75	9.94	9.94	9.94	9.94
2075/76	9.94	9.94	9.94	9.94	2075/76	9.94	9.94	9.94	9.94
2076/77	9.94	9.94	9.94	9.94	2076/77	9.94	9.94	9.94	9.94
2077/78	9.94	9.94	9.94	9.94	2077/78	9.94	9.94	9.94	9.94
2078/79	9.94	9.94	9.94	9.94	2078/79	9.94	9.94	9.94	9.94
2079/80	9.94	9.94	9.94	9.94	2079/80	9.94	9.94	9.94	9.94
2080/81	9.94	9.94	9.94	9.94	2080/81	9.94	9.94	9.94	9.94
2081/82	9.94	9.94	9.94	9.94	2081/82	9.94	9.94	9.94	9.94
2082/83	9.94	9.94	9.94	9.94	2082/83	9.94	9.94	9.94	9.94
2083/84	9.94	9.94	9.94	9.94	2083/84	9.94	9.94	9.94	9.94
2084/85	9.94	9.94	9.94	9.94	2084/85	9.94	9.94	9.94	9.94
2085/86	9.94	9.94	9.94	9.94	2085/86	9.94	9.94	9.94	9.94
2086/87	9.94	9.94	9.94	9.94	2086/87	9.94	9.94	9.94	9.94
2087/88	9.94	9.94	9.94	9.94	2087/88	9.94	9.94	9.94	9.94
2088/89	9.94	9.94	9.94	9.94	2088/89	9.94	9.94	9.94	9.94
2089/90	9.94	9.94	9.94	9.94	2089/90	9.94	9.94	9.94	9.94
2090/91	9.94	9.94	9.94	9.94	2090/91	9.94	9.94	9.94	9.94
2091/92	9.94	9.94	9.94	9.94	2091/92	9.94	9.94	9.94	9.94
2092/93	9.94	9.94	9.94	9.94	2092/93	9.94	9.94	9.94	9.94
2093/94	9.94	9.94	9.94	9.94	2093/94	9.94	9.94	9.94	9.94
2094/95	9.94	9.94	9.94	9.94	2094/95	9.94	9.94	9.94	9.94
2095/96	9.94	9.94	9.94	9.94	2095/96	9.94	9.94	9.94	9.94
2096/97	9.94	9.94	9.94	9.94	2096/97	9.94	9.94	9.94	9.94
2097/98	9.94	9.94	9.94	9.94	2097/98	9.94	9.94	9.94	9.94
2098/99	9.94	9.94	9.94	9.94	2098/99	9.94	9.94	9.94	9.94
2099/00	9.94	9.94	9.94	9.94	2099/00	9.94	9.94	9.94	9.94
2100/01	9.94	9.94	9.94	9.94	2100/01	9.94	9.94	9.94	9.94
2101/02	9.94	9.94	9.94	9.94	2101/02	9.94	9.94	9.94	9.94
2102/03	9.94	9.94	9.94	9.94	2102/03	9.94	9.94	9.94	9.94
2103/04	9.94	9.94	9.94	9.94	2103/04	9.94	9.94	9.94	9.94
2104/05	9.94	9.94	9.94	9.94	2104/05	9.94	9.94	9.94	9.94
2105/06	9.94	9.94	9.94	9.94	2105/06	9.94	9.94	9.94	9.94
2106/07	9.94	9.94	9.94	9.94	2106/07	9.94	9.94	9.94	9.94
2107/08	9.94	9.94	9.94	9.94	2107/08	9.94	9.94	9.94	9.94
2108/09	9.94	9.94	9.94	9.94	2108/09	9.94	9.94	9.94	9.94
2109/10	9.94	9.94	9.94	9.94	2109/10	9.94	9.94	9.94	9.94
2110/11	9.94	9.94	9.94	9.94	2110/11	9.94	9.94	9.94	9.94
2111/12	9.94	9.94	9.94	9.94	2111/12	9.94	9.94	9.94	9.94
2112/13	9.94	9.94	9.94	9.94	2112/13	9.94	9.94	9.94	9.94
2113/14	9.94	9.94	9.94	9.94	2113/14	9.94	9.94	9.94	9.94
2114/15	9.94	9.94	9.94	9.94	2114/15	9.94	9.94	9.94	9.94
2115/16	9.94	9.94	9.94	9.94	2115/16	9.94	9.94	9.94	9.94
2116/17	9.94	9.94	9.94	9.94	2116/17	9.94	9.94	9.94	9.94
2117/18	9.94	9.94	9.94	9					

COMPANIES AND FINANCE: ASIA/PACIFIC

US\$1,255,115,000 Hanson America Inc.

Notice of Consent Solicitation Relating to its
2.39% Senior Exchangeable Discount Notes Due 2001
(including the ADS Rights appurtenant thereto issued by
Hanson (Bermuda) Limited to acquire
American Depositary Shares
representing Ordinary Shares of Hanson PLC)
(CUSIP: 411335-AA-0; Common Code: 4825343; ISIN: XS004825343-7)

Hanson America Inc. ("Hanson America") is soliciting the "Solicitation", on behalf of itself and as agent for each of Hanson PLC, its indirect parent ("Hanson"), and Hanson (Bermuda) Limited ("HBL"), upon the terms and subject to the conditions set forth in the Consent Solicitation Statement dated August 28, 1996 (the "Solicitation Statement") and in the accompanying Consent Letters, Consents to certain amendments to the "Proposed Amendments" to (i) the Indenture pursuant to which its 2.39% Senior Exchangeable Discount Notes Due 2001 (the "Notes"), including the ADS Rights appurtenant thereto issued by HBL to acquire American Depositary Shares representing ordinary shares of 25p each of Hanson, were issued, (ii) the ADS Rights Agreement, and (iii) the ADS Issuance Agreement (collectively with the Indenture and the ADS Rights Agreement, the "Note Instruments"). Unless the context otherwise requires, the term "Notes" includes the ADS Rights, and the term "Solicitation Statement" includes the Consent Letters. See the Solicitation Statement for the definitions of capitalized terms used herein and not defined herein.

On January 30, 1996, Hanson announced that it proposed to demerge its chemicals, tobacco and energy businesses as three separate publicly traded companies (collectively, the "Demergers"). The demerger of Hanson's chemicals businesses (the "Chemicals Demerger"), pursuant to which Hanson America will become a wholly owned subsidiary of Millennium Chemicals Inc. and will be renamed Millennium America Inc., is expected to occur on October 1, 1996. The date on which the Chemicals Demerger occurs, if it occurs, is referred to herein as the "Demerger Date". The Consents are being solicited in connection with the Demergers.

The terms of the Note Instruments provide that Consents from Holders of at least a majority in aggregate principal amount due at the stated maturity of Notes outstanding (the "Requisite Consents") must be received in order to effect the Proposed Amendments. The consummation of the Solicitation is conditioned on (i) receipt of the Requisite Consents, and (ii) certain customary conditions.

If the Requisite Consents are received (and not revoked) by the Tabulation Agent prior to the Expiration Date, and the other conditions set forth in the Solicitation Statement are satisfied or waived, promptly after the Expiration Date, Hanson America will cause a cash payment of US\$1.25 per US\$1,000 principal amount due at the stated maturity of Notes with respect to which Consents are given to be made to each Consenting Holder.

Upon consummation of the Chemicals Demerger (if it occurs), a Change-in-Control will occur. Millennium America Inc. will be required under the Indenture to provide a notice to Holders of Notes, specifying that it will repurchase for 101% of the accrued value of the Notes, plus accrued interest, to but excluding the date of repurchase, any and all Notes from each holder that properly exercises its Change-in-Control Right. If the Requisite Consents are received, the Proposed Amendments are implemented and the Chemicals Demerger occurs, such repurchase of Notes is currently expected to occur in early December 1996. However, if the Requisite Consents are not received and the Proposed Amendments are not implemented, but the Chemicals Demerger occurs, the ability of Holders to exercise their Change-in-Control Rights could be delayed or eliminated if Holders elect to exercise remedies that may be available under the Note Instruments.

As more fully set forth in the Solicitation Statement, the Proposed Amendments would, among other things, (i) specifically permit the Demergers by Hanson of its chemicals, tobacco and energy businesses without compliance by Hanson America or Hanson, as the case may be, with certain covenants in the Note Instruments relating to consolidations, mergers or transfers of assets, (ii) specifically permit the prepayment by Hanson America of the US\$2.25 billion loan from Hanson Antilles N.V., an indirect wholly owned subsidiary of Hanson, to Hanson America on or after the Demerger Date, (iii) upon consummation of the Chemicals Demerger, if it occurs, provide that the delivery by Millennium Chemicals Inc. of certain financial information will satisfy the covenant set forth in the Indenture to deliver financial information in respect of Hanson America, and (iv) upon consummation of the Chemicals Demerger, if it occurs, eliminate the limitations on the grant of security interests in the assets and properties of Hanson America or its subsidiaries and the limitations on incurrence of additional indebtedness by subsidiaries of Hanson America. The Proposed Amendments will become effective immediately upon execution of the Amendment Documents by all parties thereto; provided that the Proposed Amendments specified in (i), (ii) and (iv) above will apply by their terms only from and after the Demerger Date.

None of Hanson America, HBL, Hanson, the Information Agent, the Tabulation Agent and the Solicitation Agents makes any recommendation as to whether or not Holders should give their Consents.

With respect to Notes held through DTC, the record date for this Solicitation is the close of business on August 27, 1996.

Subject to the terms and conditions set forth herein, the Solicitation will be open until 5:00 p.m., New York City time, on September 18, 1996, unless extended by Hanson America, in its sole discretion (such time and date or the latest extension thereof, if extended, the Expiration Date). Consents may be revoked at any time prior to the Expiration Date on the terms and subject to the conditions set forth in the Solicitation Statement.

Requests for assistance or for additional copies of the documents should be directed to the Information Agent:

GEORGESON & COMPANY INC.

New York, New York
Banks and Brokers: (212) 440-8800
All Others: (800) 223-2084
London, England
+44-171-484-7100

Questions regarding the Solicitation should be directed to the Joint Solicitation Agents:

Salomon Brothers Inc. Goldman, Sachs & Co.
London, England
+44-171-774-1562

This announcement is not a solicitation of a consent. The Solicitation is made solely by the Consent Solicitation Statement dated August 28, 1996 and the accompanying Consent Letters. The Solicitation is only made in states or foreign jurisdictions where the making of the Solicitation is not prohibited by administrative or judicial action or a state or foreign statute.

INFORMATION FROM THE BANK OF ENGLAND GILT-EDGED CONVERSION OFFER 13 1/2% TREASURY STOCK 2004-2008 INTO 8 1/2% TREASURY STOCK 2005

The Bank of England announces an offer to convert holdings of 13 1/2% Treasury Stock 2004-2008 into 8 1/2% Treasury Stock 2005 on 26 September 1996 at a rate of £127.60 nominal of 8 1/2% Treasury Stock 2005 per £100 nominal of 13 1/2% Treasury Stock 2004-2008.

Registered holders of 13 1/2% Treasury Stock 2004-2008 at the close of business on 19 September 1996 who have exercised the option to convert will be entitled to the full interest payment due on 26 September 1996, the stock's next interest payment date. However, an amount equal to 111 days accrued interest on 8 1/2% Treasury Stock 2005 (in respect of the period from 7 June 1996, the previous interest payment date of this stock, to the date of conversion) will be deducted from the payment made, as consideration for the purchase of the accrued interest. 8 1/2% Treasury Stock 2005 issued as a result of the conversion will be fungible with the existing stock from the conversion date, and will also qualify for the full dividend payable on 7 December 1996.

Holders who do not wish to convert any part of their holding should do nothing. Those holders who wish to assent to the terms of the conversion offer should await the conversion notice which is being sent to registered holders shortly. Holders uncertain as to the best course to follow should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

Copies of the conversion notice and forms for the acceptance of the conversion offer may be obtained by post from the Registrar's Department, Bank of England, Conversions, Southgate House, Southgate Street, Gloucester, GL1 1UW; from National Savings, Bonds and Stock Office, Myddel Road, Blackpool, FY3 9YP; at the Central Gilts and Money Markets Office, Bank of England, Threadneedle Street, London, EC2R 8AH; at the Bank of Ireland, Moyness Buildings, 1st Floor, 20 Calender Street, Belfast, BT1 5BN; or at any office of the London Stock Exchange.

BANK OF ENGLAND
LONDON
27 August 1996

BRISTOL & WEST
FLOTTING RATE NOTES
Due 1999
For the Interest Period 23rd August, 1996 to 23rd November, 1996 the Notes will carry a Rate of Interest of 5.00078 per cent per annum, with a Coupon Amount of £1,515.50 per £100,000 Note, payable on 23rd November, 1996.
Listed on the London Stock Exchange
Bankers Trust Company, London, Agent Bank

Republic of Ecuador
FDI Bonds due 2015
For the six months August 28, 1996 to February 28, 1997, the Bonds will bear interest at 6.50% per annum, February 28, 1997 will be a Reduced Interest Payment Date. On such date, U.S. \$16.21 of interest per U.S. \$100 face amount of Bonds will be payable and U.S. \$18.42 of interest per U.S. \$100 face amount will be capitalized. The sum of all capitalized amounts to and including February 28, 1997 is U.S. \$76.31 per U.S. \$100 face amount of Bonds.
By: The Chase Manhattan Bank as Fiscal Agent
August 28, 1996

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Citic surges with help of exceptionals

By Louise Lucas
in Hong Kong

Citic Pacific, the Hong Kong listed arm of Beijing's flagship investment company, yesterday proposed paying shareholders a special dividend of 30 cents on top of a 16.5 cents interim dividend as it reported net profits of HK\$4.99bn (US\$645m) for the six months to June 30, more than three times the \$1.4bn achieved at the halfway stage last year.

The results were lifted by \$2.3bn worth of exceptionals, from the sale of stakes in Hongkong Telecom, the territory's dominant telecoms company, and Dragonair, Hong Kong's regional airline. The latter followed a restructuring in the aviation industry which saw CNAC, the airline arm of the Chinese aviation authority, take a 25.96 per cent stake in Dragonair, while Citic Pacific and Swire Pacific, the conglomerate which still controls the de facto flag carrier Cathay Pacific, each sold 17.66 per cent.

After the deal, finalized in June, Citic Pacific holds 28.5 per cent of Dragonair, a level

which could drop further to 25 per cent when the planned public flotation of Dragonair goes ahead early next year. At the same time, it raised its stake in Cathay Pacific to 25 per cent from 10 per cent.

Separately, Citic Pacific reduced its holding in Hongkong Telecom from 10 per cent to 8 per cent. Excluding these exceptional profits, the underlying growth was 21 per cent.

The conglomerate, eager to shed its image as a holding company, has been focusing increasingly on infrastructure opportunities in Hong Kong and China. In the first half of the year, and excluding the exceptionals - 63 per cent of net earnings were derived from infrastructure and 19 per cent from property.

Earnings per share rose to HK\$2.32 in the first half of 1996 from \$0.89 at the halfway stage last year, stripping out exceptional earnings per share increased by 15 per cent. The interim dividend payout of 16.5 cents represents a 14 per cent improvement on the previous year's interim 14.5 cents.

Matsushita lifted by weaker yen

By Emilio Teraszono in Tokyo

Matsushita, the leading Japanese consumer electronics group, returned to first-quarter profitability following heavy losses a year ago brought about by foreign currency losses from the sale of its 50 per cent stake in US entertainment group MCA.

Earnings in the three months to the end of June were lifted by brisk demand for mobile telephones and high-definition television sets, as well as the benefits of a weaker yen.

Group pre-tax profits for the quarter totalled ¥70.7bn (¥471m) against a loss of ¥127.7bn in the corresponding period last year.

Consolidated turnover rose 18 per cent to ¥1,719.5bn while the company posted net profits of ¥18.5bn against a loss of ¥161.3bn. Operating profits rose 90 per cent to ¥44.4bn. Domestic sales advanced 8

per cent to ¥900.5bn, while overseas sales added 15 per cent to ¥818.8bn. Sales of video equipment rose 17 per cent to ¥300.1bn.

Electronic component sales fell 3 per cent to ¥237.3bn. Sales of audio equipment rose 10 per cent to ¥127bn.

TDK, the world's largest maker of magnetic tapes, reported a sharp rise in first-quarter earnings. A surge in sales of its magnetic heads for high-capacity hard disk drives and semiconductor devices, multi-layer chip capacitors, high frequency components and noise filters buoyed revenue.

Consolidated pre-tax profits for the three months to June rose 128.9 per cent to ¥16.8bn due to a sharp rise of sales in Asia and the US. Group revenue rose 24.8 per cent to ¥149.9bn while net profits tripled to ¥9.9bn. Overseas sales rose 37.7 per cent to ¥92.2bn.

NEWS DIGEST

Gujarat Ambuja moves ahead 47%

Gujarat Ambuja Cements appears set to consolidate its reputation as one of the most highly-rated Indian cement producers after reporting profits for the year to June higher than most market expectations. The company, a BSE 30 Index constituent, lifted its net profit by 47 per cent to Rs1.478bn (\$414m) from Rs1.005bn.

Sales rose by 70 per cent to Rs7.3bn from Rs4.2bn as higher prices and the start of production at the company's new plant in Himachal Pradesh state helped lift sales volume to 3.1m tonnes from 2m tonnes. The company's operating profit margin more than doubled with brokers Wt per cent. Mr J Gopalakrishnan, an analyst with brokers Wt Carr, said GACL now had the highest operating profit margin in the Indian cement industry. The company's fourth cement plant, which will have a capacity of 1m tonnes a year, is expected to come on stream by December 1996, lifting total production capacity to 4.5m tonnes. Shares in GACL closed Rs3.25 higher at Rs309 yesterday.

Tony Tassell, Bombay

Hopewell shares drift lower

Shares in Hopewell Holdings drifted lower yesterday amid reports that the Hong Kong listed infrastructure and property group had scrapped plans to spin off its transport interests in a separate listing.

The mooted transport listing, to be called Consolidated Real Estate and Transport Asia (Cresta), was announced in January as a means of reducing the company's large debt pile. The centre-piece of the spin-off is the south China superhighway and related roads and property.

Mr Gordon Wu, chairman, submitted a formal application to the Hong Kong Stock Exchange in January, stating that the intended listing would take place in 1998. It contained no guarantee that the reorganisation would go ahead and more sceptical brokers dismissed the plan - intended to eliminate Hopewell's then HK\$9bn (US\$1.16bn) debt through the private sale of shares in Cresta - as a cheap means of stimulating interest in the company.

Shares in Hopewell Holdings yesterday fell 1.59 per cent to a low of HK\$4.375, but recovered slightly to close the day down 5 cents at \$4.40.

Louise Lucas, Hong Kong

ASX demutualisation vote

The Australian Stock Exchange has set October 18 as the date on which it will ask existing stockbroker members to vote on the organisation's innovative plan to demutualise.

The ASX hopes to persuade members to give it a mandate to seek federal legislation which would allow the ASX to convert from being a company limited by guarantee to one limited by shares. These shares, in turn, would be distributed to exchange members (except those admitted after July 5), and possibly listed in due course.

The demutualisation proposal would break the current legal tie between ownership/membership of the ASX and access to its trading facilities. At least 75 per cent of those voting would need to be in favour for the change to go ahead. Since federal legislation would be required, the conversion process would probably be quite long.

The announcement of the meeting date came as the ASX launched an "Information package" it plans to market to members over the next two months. In this, it said that under the new arrangements, the ASX board would become answerable to shareholders, and would appoint management. New articles of association would be drawn up to "reflect the ASX's new commercial status".

Shares in the demutualised organisation could be held by anyone, but the ASX would recommend to the federal government that restrictions similar to those applying to banking groups be introduced. The ASX's role in supervising its stockmarket and overseeing listings would not change.

Further details of the restructuring plan came as the ASX announced an after-tax surplus of A\$19.4m (US\$15.3m) for the 12 months to end-June, up from A\$14.6m in the previous year.

Nikki Todd, Sydney

Chinese turn to HK for funds

Mainland companies tap the colony's markets ahead of handover

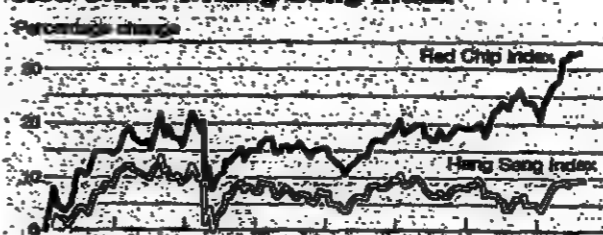
China's capital-hungry companies take little prompting when it comes to tapping the Hong Kong stock market. So an improvement in investor sentiment, underpinned by easing monetary conditions on the mainland, is prompting something of a gold-rush by China-backed businesses.

Last week, Hong Kong-listed Shanghai Petrochemical, China's largest petrochemicals concern, announced it was raising HK\$1.04bn (US\$130m) through a share placement. A few days earlier, Guangdong Investment, which is controlled by the dynamic southern province across the border from Hong Kong, raised more than HK\$400m.

China Travel and China Overseas Land have been among the other mainland-backed companies to raise capital for expansion or to bolster their balance sheet over recent weeks. Few expect they will be the last. The significance of such issues extends beyond the ambitions of mainland groups. Fund-raising in Hong Kong also reinforces the territory's role as the financial centre for China ahead of next year's transfer of sovereignty. "It is natural and important that Hong Kong develops its role as the source of mainland capital", says Mr Donald Tsang, Hong Kong's financial secretary.

But for investors, many with burned fingers from previous forays into Chinese stocks, the latest offerings present difficult questions about whether the current enthusiasm is justified and the best choice of investment. The issues range from H-shares, former state enterprises listed in Hong Kong,

Red Chips v Hong Kong Index



Company	Date	Fund Raising	Intended Use
Guangdong Holdings	25/6/96	Placing of 25m new shares to raise HK\$1.04bn	To fund supermarket chain expansion
Guangdong Holdings	26/6/96	Placing of 27m new shares to raise HK\$1.04bn	To purchase two food processing companies
China Overseas Land	18/7/96	Placing of 300m new shares to raise HK\$750m	To fund acquisition of infrastructure projects and construction materials manufacturers
China Travel	14/8/96	Placing of 379m new shares to raise HK\$750m	To fund acquisition of power plant and hotels
Guangdong Investment	20/8/96	Placing of 80m new shares to raise HK\$400m	

to "red chips", Hong Kong-based companies with substantial Chinese shareholdings, and domestic issues on the Shanghai and Shenzhen markets.

All have benefited from increased optimism about mainland economic prospects. Last week's cut in interest rates by the People's Bank of China, larger than the previous reduction in May, confirmed Beijing's loosening of monetary policy and its desire to support debt-laden state-owned companies.

Although the upturn in the Chinese economy will take time to translate into corporate earnings, most believe the worst is over after 18 months of depression. "We have probably seen the trough", says Mr Wang Guobu, China analyst at SBC Warburg. "But we are looking at a slow recovery from a low base." He cautions that mainland companies in core industrial sectors, such as steel and chemicals, will

continue to show the scars of weak demand - a warning borne out by first-half results for several H-share companies.

Recovery prospects, however, and the upturn in investor confidence are reflected in the various indices. Mr Chong Leong, China analyst at ING Barings, estimates that the 30 or so "red chips" have outperformed the main Hang Seng Index by more than 20 per cent since the beginning of the year, while the B-shares available to foreigners in Shanghai, and Shenzhen in particular, have also rallied. The Hang Seng China Enterprises Index, which charts the 21 H-shares, fell yesterday, partly because of the Shanghai Petrochemical placement, but it has been trading at its highest point since the end of May.

In the past, such gains have flattered to deceive, so analysts remain cautious. Mrs Ching Ju Yeh, a senior

investment manager with HSBC Asset Management, says she is much more positive about prospects for H-shares, but will not raise their weighting in the funds she handles.

Her restraint reflects continued concerns about transparency and management at mainland companies. Ting-tao, for example, the brewer and the first company to issue H-shares, angered investors by failing to expand as projected in its 1993 listing prospectus and because of a lack of details concerning the use of funds.


Such concerns have steered many investors towards "red chips", which are registered and managed in Hong Kong. Many, such as Citic Pacific, are diversified conglomerates with strong mainland connections, increasing their attraction to investors. But with price-earnings ratios in the region of 12 or 13 times, they no longer come cheap. Mr Leong, at ING Barings, plays down the prospects of another 1994 crash but believes their steam is now running out.

The same cannot be said about the volatile B shares in Shanghai and Shenzhen. Nor are they expensive, trading on P/E ratios of about eight and 10 times respectively. But neither are they liquid or transparent. "Disclosure is very poor, so selection is very important", says Mrs Ching at HSBC.

Candidates for selection in the B-share markets and in Hong Kong appear set to broaden rapidly. "There are a lot of companies with fund raising plans and now they see the window of opportunity", says the director of capital markets at one investment bank. "Investors are going to be spoiled for choice." But they are unlikely to get carried away; the disappointments of the past few years are a reminder that Chinese choices can also be spoiled.

John Ridding

Flat reaction to the rise of Bass Brewers



RAND MINES

RAND MINES LIMITED

(Incorporated in the Republic of South Africa Registration No. 01/0085906)
("Rand Mines" or "the Company")

Proposed final unbundling of the Company in terms of section 80 of the Income Tax Act, 1983, ("the Tax Act") ("the unbundling"), by way of a distribution in specie and a reduction of share capital in terms of section 84 of the Companies Act, 1973, as amended ("the Companies Act").

- Introduction**
 UAL Merchant Bank Limited ("UAL") is authorised to announce that, further to the announcements of 14 June 1996 and 26 July 1996 the board of directors of the Company has determined the terms of the unbundling, details of which follow.
- The unbundling**
 The share distribution will comprise of 16 103 129 Ingwe Coal Corporation Limited ("Ingwe") ordinary shares held by the Company. In terms of the unbundling, shareholders registered as such on Friday, 18 November 1996 and holders of share warrants to bearer, will receive 27 Ingwe ordinary shares for every 100 Rand Mines ordinary shares held, by way of a distribution in specie.
 Fractions of Ingwe ordinary shares due to shareholders as a result of the share distribution will not be distributed to Shareholders but will be aggregated and sold on the Johannesburg Stock Exchange ("the JSE") for the benefit of the shareholders concerned. The cash proceeds arising from such sale, net of costs, will be distributed to the shareholders entitled thereto.
 Following the proposed distribution of 16 103 129 Ingwe ordinary shares to shareholders, the Company will have a remaining interest in Ingwe of 0.49% comprising 1 083 538 Ingwe ordinary shares. These shares will be disposed of by the Company on the JSE in order to satisfy any potential liability that may arise out of the pending litigation regarding the payment of post-retirement medical aid contributions referred to in the Directors' Report dated 7 November 1995. An application for a declaratory order has been submitted by the Company's legal counsel to the Supreme Court. This application is scheduled to be heard in August 1996 and the judgement is expected towards the end of 1996. This judgement may be subject to appeal. Shareholders will be informed of the outcome of this application. Subsequent to the settlement of any potential liability arising from the pending litigation, the Company will be wound up and will distribute any surplus to shareholders by way of a liquidation dividend.
 The Company's listing on the JSE and the London Stock Exchange will terminate at the time of the unbundling becoming effective. The effective date of the unbundling is expected to be Monday, 18 November 1996.
- Financial effects of the unbundling**
 The theoretical market value effect for an ordinary shareholder, based on the share distribution of 27 Ingwe ordinary shares for every 100 Rand Mines ordinary shares held, and excluding any liquidation dividend that may be distributed on the winding up of the Company, will be:

	Before unbundling	After unbundling	
	100 Rand Mines ordinary shares (Rand)	27 Ingwe ordinary shares (Rand)	Percentage increase/ (decrease)
13 June 1996 ¹	778	796.5	2.37
26 August 1996 ²	970	966.6	(0.35)

Notes

- The closing prices on the JSE on the last day on which both Rand Mines and Ingwe shares traded before 14 June 1996, being the date on which the initial cautionary announcement was published.
- The closing prices on the JSE on the last day on which both Rand Mines and Ingwe shares traded before the finalisation of this announcement.

- Conditions precedent to the unbundling**
 It is expected that the unbundling will become unconditional on Wednesday, 13 November 1996, which is the date on which it is expected that the following conditions precedent will have been fulfilled and carried out, namely:
 - a general meeting of the Company's shareholders convened to be held on Friday, 11 October 1996 will have passed all the special and ordinary resolutions to be proposed thereat;
 - the Court will have confirmed the reduction of the Company's issued share capital in terms of section 84 of the Companies Act, and will have granted an Order to this effect; and
 - all resolutions passed at the general meeting referred to in 4.1 above which are special resolutions, together with the Order of Court referred to in 4.2 above, will have been registered by the South African Registrar of Companies.
- Taxation considerations**
 The Commissioner for Inland Revenue has approved the transaction as an unbundling transaction in terms of section 80(2) of the Tax Act.
- Last date for registration**
 The last date for registration as a registered shareholder in the Company in order to participate in the unbundling is expected to be Friday, 15 November 1996. An announcement in this regard for holders of share warrants to bearer will be published separately in the United Kingdom and France.
- Circular to shareholders and general meeting**
 A circular, which is subject to the approval of the JSE, containing full details of the unbundling and incorporating a notice of a general meeting of the Company's shareholders will be posted to shareholders on or about 18 September 1996.
- Further announcement**
 An announcement will be published on or about 14 October 1996 reporting on the outcome of the general meeting.

Merchant Banker:
 UAL Merchant Bank Limited
 100 Main Street, Johannesburg 2001, Republic of South Africa

Registered office:
 Randcoff House
 21 Chaplin Road
 Illovo 2196
 (PO Box 7881 Sandton 2146)
 Republic of South Africa

United Kingdom Secretaries:
 Viaduct Corporate Services Limited
 19 Chancery House Street
 London EC1N 6QP

28 August 1996

INTERNATIONAL CAPITAL MARKETS

Bearish sentiment hits high yielders

By Samer Iskander in London and Lisa Branstetter in New York

Two bearish sessions for US Treasuries, a weaker dollar on the foreign exchange market, and supply of \$31.25bn yesterday and today weighed on European bonds, hitting high-yielders most.

"The negative orientation of the US market is expected to continue affecting all other international financial markets," said analysts at BNP-Paribas in Paris.

Italian bonds were dragged down by overnight losses in US Treasuries, while the lira fell against the D-Mark. Liffe's September BTP future settled at 115.45, down 0.48, after reaching a low of 114.88, as the lira recovered to around L1,023 to the D-Mark, from L1,025 earlier in the session.

In the cash market, the 10-year yield spread over bunds widened by 4 basis points to 321 points. Observers remain bearish on the near future. "Conditions are going to remain more favourable for players geared up for divergence trades," said Bear Stearns economists.

German bonds also closed lower. Liffe's September bund future settled at 97.35, down 0.14, but off its intraday low of 97.08. Analysts said bunds could outperform other European bonds in coming weeks, benefiting from their safe-haven status ahead of the budget season.

French bonds fell in line with the German market. The Matif's September notional contract closed 0.18 lower at 123.12, while the September future on three-month Pibor rates fell 0.13 to

95.86. Traders were edgy as unions met to discuss possible strikes to protest against spending cuts and job losses in the forthcoming budget. Analysts said the political and social uncertainty was likely to maintain a bearish mood in the OAT market in coming weeks.

GOVERNMENT BONDS

UK gilts also ended a quiet session slightly lower. Liffe's September long gilt future settled at 107.4, down 0.1, after reaching a low of 107.25. Traders said the main event of the week will be today's auction of £2.5bn of 10-year gilts.

"The auction should go smoothly, thanks to the stability of sterling [while other European currencies weakened against the D-Mark]," one gilt analyst predicted.

US Treasury prices were stronger, but off their session highs by midday as traders awaited the results of the afternoon auction of two-year notes.

In early trading, the benchmark 30-year Treasury was up nearly half a point, recovering some of Monday's losses. At mid-morning, however, bonds began to slide after the Conference Board reported that its index of consumer confidence rose to 108.4 in August from 97.3 in July. Economists had expected a figure closer to 105.

At midday the long bond was 1/8 stronger at 97 1/8 to yield 6.970 per cent, while the two-year note was up 1/4 at 100 1/4, yielding 6.142 per cent, and the September 30-year bond future was 1/8 higher at 108 1/8.

Ms Lynn Franco, associate director of the Conference Board's Consumer Research

Center, said "the surge in confidence in July, coupled with the August advance, suggests that consumer attitudes may be on an upward trend after remaining stagnant for more than a year".

The Treasury was due to auction \$18.75bn in two-year notes yesterday and \$12.5bn in five-year notes today.

The Bank of England released details of the gilt conversion offer announced on August 12. Holders of 15% per cent Treasury bills due 2004-05 will be able to convert them into 5% per cent gilts due 2005 at £137.50 nominal of 2005 bonds for £100 nominal of 2004-05 bonds. Settlement will be on September 26. The Bank says the "offer is part of a programme to build up a pool of stripable stock ahead of the introduction of the gilt strips facility".

There was strong demand throughout the quarter for high-coupon paper, often leading emerging market borrowers to launch larger issues than initially announced, the BIS said.

Another salient factor in the second quarter was the increased reliance on shelf-life financing, with US firms accounting for 40% of new securities taking place through the eurozone market.

However, the BIS warned, "the trend towards the establishment of borrowing programmes... will considerably reduce the information content of standard bond data".

Surge in issuance by developing countries

By Samer Iskander

Low yields on traditional investments and the availability of ample liquidity have favoured the issuance of emerging market debt in the second quarter of 1996, according to the Bank for International Settlements.

"New sovereign names have appeared in the eurozone market, while the market opened further to financial institutions from developing countries," the BIS said in its latest quarterly report. "At some \$200m, total net new issues by developing country borrowers were the highest ever recorded."

Estonia was one of the new arrivals, along with Israel, which launched its first issue not guaranteed by the US government.

The report also warned that although exposure to market risk had been reduced by shortening the weighted average maturity of fixed-rate issues, the search for yield had led to "greater tolerance for credit risk".

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However, the BIS warned, "the trend towards the establishment of borrowing programmes... will considerably reduce the information content of standard bond data".

Strong demand brings sharp drop in margins

By Corrie Middelmann and Richard Lapper

Activity in the syndicated loans market has begun to pick up, with borrowers and bankers returning from their summer holidays.

In the UK, a £1.2bn jumbo loan is being put together for Mercury Personal Communications.

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Tokyo Electric Power plugs into French francs

By Corrie Middelmann

Tokyo Electric Power made its first foray into the French franc sector yesterday, the first of several Japanese borrowers expected to tap the eurozone sector in the coming days.

INTERNATIONAL BONDS

Its large FF4bn offering reopened the French franc 10-year sector after the summer lull, and saw healthy buying from domestic institutions, notably life insurance companies, said an official at lead manager Banque Paribas.

However, he added that non-French take-up had been disappointing and was likely to account for only around 20 per cent of placement.

A number of other Japanese issuers are thought to be waiting in the wings. Kansai Electric Power is said to be planning a \$500m 10-year offering this week, while Kansai International Airport has been rumoured for weeks to be planning a \$200m to \$250m issue of 10-year bonds.

Moreover, Japan Finance Corporation for Small Business, a government-guaranteed borrower, is set to launch a DM350m three-year transaction via joint lead Bank of Tokyo-Mitsubishi and Deutsche Morgan Grenfell. Spread talks are around 10 basis points over German government notes.

Elsewhere, Crédit Local de France set a new benchmark in the Ecu sector with an Ecu400m issue of five-year bonds, the largest Ecu offering since an Ecu500m transaction for the European Investment Bank in March.

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New international bond issues

Borrower	Amount	Coupon	Term	Issue Date	Yield	Spread	Bookrunner
US DOLLARS							
Grandstream (Denmark)	150	5.45	100.00	Sep 1998	1.00	+120bp-30	DKS Int/Paribas (Europe)
LP Paribas (Denmark)	75	10.00	100.00	Oct 2000	0.2500		Paribas (Denmark)
YEN							
SBAB (Japan)	150m	4.00	100.00	Mar 1999	1.50		BSI Int/Watkins (Europe)
FRANCS							
Tokyo Electric Power Co	4bn	5.50	99.4031	Sep 2000	0.2500	+150	Paribas (Europe)
LUSEMBURG FRANCS							
Argenta Nederland	20m	4.50	100.00	Sep 1998	1.375		BOE
ITALIAN LIRE							
Crédit Local de France (C)	400	5.00	99.700	Sep 2001	0.2500	+20	Paribas (Europe)

Final terms, non-callable unless stated. Yield spread over relevant government bonds at launch applied by lead manager. Unlevered, 10-year coupon. R. fixed rate offer price. Issued at 100% of face value. All issues are in US dollars, unless stated. All issues are in US dollars, unless stated. All issues are in US dollars, unless stated.

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CURRENCIES AND MONEY

MARKETS REPORT

Dollar and D-Mark remain calm, despite talk

By Richard Adams

Despite market speculation that the German D-Mark would strengthen and the US dollar would weaken, both the dollar and the D-Mark stayed within narrow ranges on the currency markets yesterday.

The dollar, which suffered a sharp fall on Monday, was little affected by news of the US Conference Board report that August's consumer confidence index surged to 109.4, from a revised reading of 107.0 in July. Many analysts had expected the index to fall to below 107. Against the D-Mark, the dollar was unmoved at DM1.478 from the previous London close.

The yen was unable to stay above ¥108 against the dollar. But dealers said it looked comfortable trading at ¥107.7, slightly weaker than the previous closing price of ¥107.6, ahead of the release today of the Bank of

Japan's tankan, its quarterly index of economic data. Meanwhile, the D-Mark's value was expected to have another round of queries over the timing and likelihood of the proposed European monetary union.

Comments by senior Italian and German officials over recent days had reopened debate over the possibility of a delay in the Emu timetable or a dilution of criteria for membership.

In the end the D-Mark gained a little from the Emu speculation, ending up against the pound at DM2.259, from DM2.302.

The French franc and the Italian lira again looked a little soft in trading in Europe.

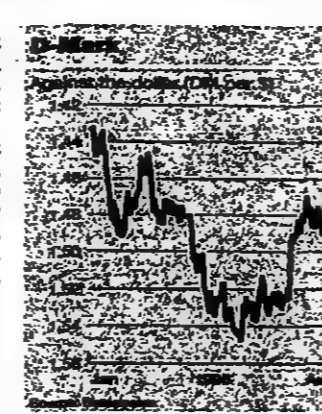
Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568			

The lira fell to L1,023 against the D-Mark, down from L1,022, while the franc lost half a centime, to end at FF3.421 from FF3.416.

The Swiss franc lost ground against the D-Mark, falling from SF1.192 to SF1.193. But any further gains by the dollar against the franc will be difficult since resistance is solid at SF1.196, dealers said. The D-Mark strengthened against the Swiss franc to DM1.238, up from DM1.240.

Attention turns today to the Bank of Japan and the release of the August tankan, a quarterly measure of business conditions.

Analysts at Standard Chartered in London say the August tankan diffusion index may show a more moderate growth trend, after a sharp pick-up in capital spending and business confidence in May's tankan.



Source: Reuters, Standard Chartered

Mr Tim Fox, treasury economist at Standard Chartered in London, said: "The chances are that the tankan's manufacturing diffusion index will recover back into positive territory in August from the minus 3 per cent reading in May. But business managers will likely remain nervous about the rest of the year, unwilling to precipitate a Bank of

Japan rate tightening."

More Japanese economic data will be released over the next two days, including July retail sales tomorrow, and unemployment on Friday.

French interest rate futures fell back yesterday, following intensified doubts about France's ability to cut its budget deficit in order to qualify for Emu.

The worries came on the back of concerns that France's second quarter GDP report, to be released next week, will show underlying economic weakness.

The September national and Pibor contracts closed near their lows. The September national contract settled at 133.12, two ticks higher than the closing price.

The franc fell as low as FF3.4235 against the D-Mark, before recovering to FF3.421. Further worries for the

franc came when France's largest labour union, the moderate Confederation Generale du Travail (CGT), forecast "tension and conflict."

Ms Nicole Notat, the CGT leader, told Le Monde that people were increasingly restless in the face of rising unemployment.

In the run-up to the 1997 budget to be presented in September, Ms Notat said the most contentious aspect was the shedding of 7,000 civil service jobs.

The Bank of Finland yesterday said it was lowering its base rate to 4 per cent from 4.50 per cent from September 16.

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568			

WORLD INTEREST RATES

MONEY RATES	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
Belgium	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Denmark	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
France	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Germany	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Italy	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
Japan	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
UK	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2
US	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2

LIBOR FT London	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
Interbank	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2
3 month	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2
6 month	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2
12 month	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2

LIBOR bank rates are offered rates for \$10m quoted to the market by four major banks at 11am each working day. The banks are: Barclays Bank, Citicorp, HSBC and National Westminster. Mid rates are shown for the domestic Money Rates. US, UK, EU and JGB Bank Deposit Rates.

EURO CURRENCY INTEREST RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

POUND SPOT FORWARD AGAINST THE POUND

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

CROSS RATES AND DERIVATIVES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

UK INTEREST RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

BASE LENDING RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
1 yr	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

EURO CURRENCY UNIT RATES

Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
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3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

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Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
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3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

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Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27	Aug 27
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3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

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3 mth	1.5530	1.5575	1.5530	1.5575	1.5530	1.5575	1.5530
1 yr	1.5516	1.5568					

COMMODITIES AND AGRICULTURE

Hedging seen helping Australia to climb gold output league

The downside to high grain yields

Tighter profit margins will put a premium on timing for sellers

By Kenneth Gooding,
Mining Correspondent

The role of hedging in promoting strong growth in global gold production is underlined by the latest report by the Washington based Gold Institute.

Its analysis shows that, among the world's big producers, Australia - where most companies hedge - is set for substantial output growth to the end of the decade, while South Africa, where until recently gold groups have been reluctant to hedge, will see further falls in output.

The forecasts collated by the Institute also suggest that:

● China before the end of the decade will overtake Canada to become the world's fifth-largest producer of the precious metal;

● Global gold production, which increased by 12 per cent between 1990 and 1995, is expected to show another 15 per cent rise by 1999 when output is forecast to be 83,055 tonnes (2,583 tonnes).

Australia, after a relatively modest rise of 13.4 per cent to 8,118,000 ounces in the five years to 1995, is forecast to see a 38 per cent jump to 11,220,000 in 1999. The Institute says: "In addition to technological advancements and improved resource management, Australia's projected increases also are dependent of hedging and other options strategies which have brought producers greater certainty in cash flows and have contributed to the current structure and vigor of the Australian gold mining industry".

Meanwhile, the gap between South Africa, still at the top of the gold production league, and the US, in second place, narrowed in the five years to 1995 and will continue to do so, according to the forecasts. South African production fell by 13.3 per cent to 7,950,000 ounces in the five years and is predicted to drop by a further 18 per cent to 6,550,000 in 1999. The US, in contrast, saw an 18.3 per cent jump in gold output to 10,587,000 ounces in the five years to 1995 and production is forecast to move up by another 21 per cent to 12,743,000 in 1999.

The Institute's latest World Gold Mine Production report, which brings together forecasts of 100 gold mining entities in 70 countries, shows that China's gold output rose by 43.6 per cent between 1990 and 1995, from 3,054,000 to 4,385,000 ounces. This is predicted to jump by another 36 per cent to 5,968,000 ounces in 1999. Meanwhile, Canada, which suffered a 6.6 per cent fall in output, to 4,790,000 ounces in the five years to 1995, is expected to see a 21 per cent increase to 5,787,000 in 1999.

The only other predicted shift in the rankings among the big producers is for Ghana to overtake Papua New Guinea and move into ninth place.

The only European country to feature in the Institute's list is Spain. However, in spite of a predicted 100 per cent rise in gold output between 1995 and 1999, Spain is still predicted to produce only 365,000 ounces by the later year.

World Gold Mine Production 1995-1999: US\$55 from the Gold Institute, 1112 18th Street, NW, Suite 340, Washington, DC 20036, USA.

GOLD OUTPUT PROJECTIONS FOR 1999

	1995	% change from 1990	1999	% change from 1995
South Africa	14,551	-13	1,843	+10
US	12,743	+21	1,788	+7
Australia	11,220	+38	1,768	+7
China	7,950	+3	1,575	+10
Canada	5,968	+36	1,128	+28
Brazil	5,787	+21	968	+3,429
Indonesia	2,873	+12	890	+80

Source: The Gold Institute - Based on data supplied by gold mining member companies

tries, shows that China's gold output rose by 43.6 per cent between 1990 and 1995, from 3,054,000 to 4,385,000 ounces. This is predicted to jump by another 36 per cent to 5,968,000 ounces in 1999. Meanwhile, Canada, which suffered a 6.6 per cent fall in output, to 4,790,000 ounces in the five years to 1995, is expected to see a 21 per cent increase to 5,787,000 in 1999.

The only other predicted shift in the rankings among the big producers is for Ghana to overtake Papua New Guinea and move into ninth place.

The only European country to feature in the Institute's list is Spain. However, in spite of a predicted 100 per cent rise in gold output between 1995 and 1999, Spain is still predicted to produce only 365,000 ounces by the later year.

World Gold Mine Production 1995-1999: US\$55 from the Gold Institute, 1112 18th Street, NW, Suite 340, Washington, DC 20036, USA.

The reinforcing agent for ceramics, plastics and paints is already mined in the US, China, India, Mexico and Finland.

First my good news: the wheat crops on our farm, which, because of the severe summer drought, I all but wrote off in this column a couple of weeks ago, are yielding much better than I expected. Up to last Thursday night, when heavy rains followed over the weekend by showers stopped operations for the bank holiday, we were averaging around 3.5 tonnes an acre, having completed 60 per cent of our acreage. How crops that were starved of moisture for most of the year and looked awful for months can produce such yields remains a mystery to me. But our experience is apparently similar to that of most of our East Anglian neighbours.

Now my relatively bad news - at least in comparison to other UK wheat growers in areas where the drought has been much less severe. Many of them are averaging nearer 4.5 tonnes an acre. Add that to the big crops, some already brought in and others being gathered in most European Union countries this year, and it amounts to a sizeable increase in EU production. The grain trade, most of which was as wrong in its forecasts of the out-turn of the national crop as I was, is now estimating a UK wheat

FARMER'S VIEWPOINT



By David Richardson

crop of up to 16m tonnes and a total EU harvest up 9 per cent to more than 190m tonnes. This means an exportable surplus from the community significantly higher than last year and, somewhat predictably, export prices have fallen.

But world stocks of grain remain tight, in spite of better than expected yields in North America, and this has cushioned the drop in UK values. Moreover, as the EU intervention buying system is gradually phased out and GATT provisions reduce the level of subsidies the EU is allowed to lay out on reducing the cost of exports to third countries, community prices have more and more been driven by the US. Values on both sides of the Atlantic have been close to one another for some time and are still on a par.

And what a roller-coaster

ride the Americans have taken world markets on this year.

Back in January feed wheat - which sets the standard for all other grain on the UK market - was making up to £125 a tonne. By March, as some optimism on world production returned, the price had dropped to £115. But when in April and May drought set in across much of the southern plains of the US the price rocketed to £130 a tonne.

There is always a seasonal drop in prices as the northern hemisphere's harvest gets under way and this year is no exception. Feed wheat is currently trading in the UK at between £100 and £105 a tonne export for immediate movement, which is still higher than the nominal EU support level. Intervention buying does not now begin until November so any grain destined for it has to be stored until then and that costs between £1 and £2 a tonne per month. The EU price delivered to a UK intervention store in November is set at £101 per tonne.

It seems unlikely, in fact, that the system will be much used this year. Futures prices are already well ahead of support levels at over £110

a tonne for November and more than £112 for January. While it is, of course, possible that the price roller-coaster could go into free fall it would be reasonable to suppose that tight supplies and world demand will prevent that from happening.

In the EU much depends on the mood of the managers of grain exports in Brussels. They have it in their power to maintain a tax on exports, first imposed last autumn to ensure that the community did not run short of feed grains for its livestock. Having given themselves this power to manage supply and by implication price it seems unlikely that they would wish to relinquish it so soon, if ever. EU intervention stocks are at negligible levels and it is well known that the commission has set its face against the idea of ever again holding vast tonnages of surplus commodities of any kind at great expense to European taxpayers.

It seems likely, therefore, that EU grain managers will be relatively aggressive in their export ambitions this year and that any export taxes will be minimal. Furthermore, world prices would assist them to promote sales to third countries without breaking GATT rules on export subsidies. That, anyway, is how it seems at

present. But given the volatility in recent months of the Chicago and other markets, which have moved limit up or limit down with almost every shower or hot day in the mid-west, it is never possible to be certain.

As a grower used to the relative stability of an intervention system that set parameters around which price movements were limited to a few pounds a tonne, I find this a major culture change. Even with my mind set wheat yields this year the consequences of deciding to sell on the wrong day or at the wrong time of year are serious. A price variation through the season of perhaps £25 or £30 a tonne could be the difference between a profit and a loss and, as implied above, even skilled traders with the best market intelligence cannot predict such variations with accuracy.

But this is the future; and I and my fellow UK farmers will need to become more sophisticated in our marketing methods in order to minimise the risk. Futures contracts and options are just two of the devices currently on offer. But they are not well understood and very few farmers, as distinct from traders, use them. If I am any guide, that will have to change.

London coffee futures surge boils over

London Commodity Exchange robust COFFEE futures ended firmer yesterday but saw earlier gains pared heavily as the New York stock exchange correction from Monday's surge.

Whereas trading activity was supportive in London, said one trader, "Even when New York was going up, London had no [investment] fund buying coming through."

At the close, the benchmark November contract

stood \$1.700 mark at \$1.680 a tonne, \$23 higher on the day after reaching a peak of \$1.740 at the opening. London's reluctance to go higher was evident from the outset as it defied the technical call to open \$1.640 higher and rose only \$73 at the start.

Technical resistance was mainly blamed for capping the gains with a band of heavy supply weighing on the market up to \$1.800.

LCE COCOA futures fell

sharply with the December contract slipping below \$1,000 a tonne on producer selling and long liquidation. Traders said that a US forecaster had raised the prediction for the Ivory Coast crop encouraged the bearish camp while buyers stayed mostly on the sidelines.

The December delivery contract slipped though a series of support points to touch a session low of \$996 a tonne before closing at \$990,

down £19 on the day. At the London Metal Exchange most base metals prices gyrated in narrow price bands in afternoon, but LEAD dived below the psychologically-important \$500-a-tonne level and ALUMINIUM bucked its early trend to close slightly stronger.

Three months lead broke below \$800 after edging lower all day and closed at \$796, down \$12 from Friday. "It might carry on drifting

down towards \$780," said Mr William Adams, analyst at Rudolf Wolff. The market was generally bullish on lead's medium- to long-term prospects, he added.

Aluminium probed the lower end of its range in the morning but after a flurry of buying in after hours "kerb" trading, the three months price ended at its high of \$1,482, up \$4.

Compiled from Reuters

Canada to produce Wollastonite

By Robert Gibbons
In Montreal

Canada will become the sixth wollastonite producer

In 1988 when Orleans Resources' C832m, 50,000-tonnes-a-year mine 240km north of Montreal comes on stream.

The reinforcing agent for ceramics, plastics and paints is already mined in the US, China, India, Mexico and Finland.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Associated Metal Trading)

ALUMINIUM (3% per tonne)

Cash 3% 1447-9

Previous 1451-50 1452-55

High/Low 1440.5/1439 1450.5/1452

AM Official 1440.5-1.0 1475-5.5

Kerb close 1453.0

Open int. 213.0/18

Total daily turnover 70,726

ALUMINIUM ALLOY (3% per tonne)

Cash 1248-7 1277-80

Previous 1248-65 1280-90

High/Low 1240.5/1239 1280.5/1278

AM Official 1240.5-10 1275-80

Kerb close 1277-90

Open int. 4,586

Total daily turnover 1,102

LEAD (3% per tonne)

Cash 798-95 801-2

Previous 811-2 812-4

High/Low 802.5/799 802.5/799

AM Official 801-2 802-5

Kerb close 795-5

Open int. 25,013

Total daily turnover 8,900

NICKEL (3% per tonne)

Cash 7240-80 7240-85

Previous 7230-30 7415-25

High/Low 7270-75 7400/7350

AM Official 7270-75 7340-71

Kerb close 7340-71

Open int. 38,028

Total daily turnover 13,181

TIN (3% per tonne)

Cash 6115-25 6170-75

Previous 6115-25 6165-75

High/Low 6100-50 6170-75

AM Official 6130-35 6170-75

Kerb close 6170-75

Open int. 14,781

Total daily turnover 3,553

ZINC, special high grade (3% per tonne)

Cash 999-0 1024-5

Previous 1000-04 1025-29

High/Low 999/998 1025/1020

AM Official 999-05 1024-29

Kerb close 1025-25

Open int. 66,110

Total daily turnover 15,674

COPPER, grade A (3% per tonne)

Cash 1981-3 1942-4

Previous 1989-89 1946-47

High/Low 1981/1980 1946/1939

AM Official 1980-82 1944-45

Kerb close 1944-45

Open int. 20,139

Total daily turnover 38,222

LAKE AM Official 2% mine, 1,2598

LAKE Closing US rate, 1.5540

1550 3 mts, 1.554 6 mts, 1.551 9 mts, 1.541

HIGH GRADE COPPER COMEX

Sett. Day's price change High Low Vol Int

Aug 91.70 +0.20 92.00 91.70 140 598

Sep 91.10 -0.25 90.50 91.00 1,622 10,912

Oct 90.80 -0.10 90.70 90.70 154 1,407

Nov 90.30 +0.20 90.30 90.30 11 1,343

Dec 89.85 +0.20 90.40 89.85 1,122 21,157

Jan 89.35 +0.15 89.50 89.50 5 988

Total 3,328 58,008

PRECIOUS METALS

LONDON SILVER MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz) \$ price £ equiv 387.80/389.10

Opening 389.10/389.40

Morning fix 389.00 249.43/9 462.718

Afternoon fix 389.10 249.631 464.149

Day's High 389.15/389.45

Day's Low 387.70/389.00

Previous close 387.50/387.80

Leve Ldn Mean Gold Lending Rates (Vs US\$)

1 month 4.48 6 months 4.08

3 months 4.42 12 months 4.05

5 months 4.39

Silver Fix 336.65 529.30

Spot 341.25 529.15

1 month 345.35 530.85

3 months 354.10 532.80

1 year 364.00 542.80

Gold/Gold \$ price £ equiv

Kruggerand 399.90 248.260

Maple Leaf 397.85-400.45

New Sovereign 85-90 55-57

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol Int

Aug 389.10 +0.30 389.10 389.10 27 47

Sep 389.10 +0.30 389.10 389.10 27 47

Oct 389.10 +0.30 389.10 389.10 27 47

Nov 389.10 +0.30 389.10 389.10 27 47

Dec 389.10 +0.30 389.10 389.10 27 47

Jan 389.10 +0.30 389.10 389.10 27 47

Feb 389.10 +0.30 389.10 389.10 27 47

Mar 389.10 +0.30 389.10 389.10 27 47

Apr 389.10 +0.30 389.10 389.10 27 47

May 389.10 +0.30 389.10 389.10 27 47

Jun 389.10 +0.30 389.10 389.10 27 47

Jul 389.10 +0.30 389.10 389.10 27 47

Total 18,488 180,898

PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol Int

Aug 406.1 -0.5 406.1 406.1 8 1,843

Sep 406.1 -0.5 406.1 406.1 8 1,843

Oct 406.1 -0.5 406.1 406.1 8 1,843

Nov 406.1 -0.5 406.1 406.1 8 1,843

Dec 406.1 -0.5 406.1 406.1 8 1,843

Jan 406.1 -0.5 406.1 406.1 8 1,843

Feb 406.1 -0.5 406.1 406.1 8 1,843

Mar 406.1 -0.5 406.1 406.1 8 1,843

Apr 406.1 -0.5 406.1 406.1 8 1,843

May 406.1 -0.5 406.1 406.1 8 1,843

Visit Number	Male Worker Chico	Female Worker Dolly	Female Worker Peggy
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2	10	10	10
3	10	10	10
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5	10	10	10
6	10	10	10
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Midland Bank Fund Managers (Jars)

Alloc. Expense Incl. Fund Mgrs (15000)

JERSEY

For AIC Fund Management use Syntex International

- **Europe Long Term-DSC** \$33.50 34.00%
- **Europe Long Term-DIM** 1.000000 114.00%
- *** Other Prices include 3-yr Initial Charge**

100

Jupiter Tyndall (Jersey) Ltd
Gill Ed. 110.8 110.5 -5

European Bond Fund ... 3	ECRI 0590	-0.00
John Goyett (Channel Islands) Ltd (1000)		
400 Hrs, Broad St. St Helier, Jersey		01534

Perpetual UT Mfgs (Jersey) Ltd
Oriskany Ave South Fd ... 517.2680 11.0724
Offshore Engineering Co. ... 857.8085 8.6325

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Fund Name	ISIN	Unit Price	Change	Fund Name	ISIN	Unit Price	Change	Fund Name	ISIN	Unit Price	Change
Royal UK of Scotland (Lux) Ltd	LU0100000000	12.54	+0.01	Global Growth Fund (LUX) Ltd	LU0100000000	12.54	+0.01	Global Growth Fund (LUX) Ltd	LU0100000000	12.54	+0.01
...
OFFSHORE INSURANCES											
Other Offshore Funds											
...											

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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ANN - Contd

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BY: Eric
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Can Pacific
Econ Data
Eng Res
Gulf Can
Hawker Sid
Hudson's Bay
Imperial Oil
Inco
Rio Algom
Royal Can
Tenneco
Trans Can Pipe
Western Star Truck

SOUTH AFRICA

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Prices for the L
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Where stocks are indicated as a guide to interest, symbols referring to companies are listed in alphabetical order. Symbols referring to companies are listed in alphabetical order. Symbols referring to companies are listed in alphabetical order.

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LONDON STOCK EXCHANGE

MARKET REPORT

Equities retreat amid US interest rate fears

By Steve Thompson,
UK Stock Market Editor

Worries about the next move in US interest rates cast a dark shadow over the UK stock market yesterday, with share prices retreating sharply at the start of the day before staging a strong rally towards the close.

UK share prices were hit badly at the outset of trading as traders in London took fright at the poor performance of US Treasury bonds overnight.

There was good support for London and other European markets later in the day, however, when Wall Street opened on a

steady note and began to make good progress as the session wore on.

The absence of any heavy-weight selling pressure by the big UK institutions, however, was one of the reasons behind London's late recovery and the FT-SE 100 index managed to end the session only 1.8 off at 3,905.7. The Mid 250 closed 3.5 higher at 4,428.3, not far short of the day's best, 4,429.0. With prices of the leading stocks under real pressure shortly after the start of trading, there was no substantial selling of the second liners and the FT-SE Mid 250 was never lower than 2 points off.

There was no real weight of trading in London, however, with turnover at the 6pm reading coming out at 563.2m shares, with non-FT-SE 100 stocks accounting for 56 per cent of the overall total.

Senior marketmakers said yesterday was no more than a continuation of the bank holiday, with many of the top dealers extending the weekend break.

"It is very difficult to get excited about the market today," said one.

Another top dealer said the London market needed to consolidate after its recent strong performance and would want to see

US bonds and UK gilts steady before it made any further progress.

Some bulls said 4,000 on the FT-SE 100 was still a possibility, but only if there was a burst of takeover activity in the market place.

The FT-SE 100 kicked off the session almost 18 points lower and continued to slide during the first hour of trading. Thereafter, sentiment began to pick up and the FT-SE 100 moved briefly into positive territory, just after Wall Street opened for business.

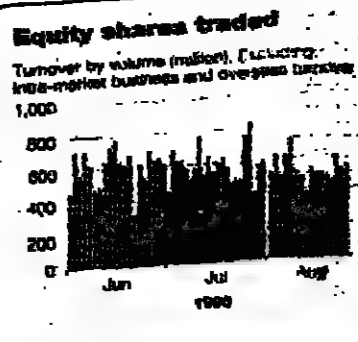
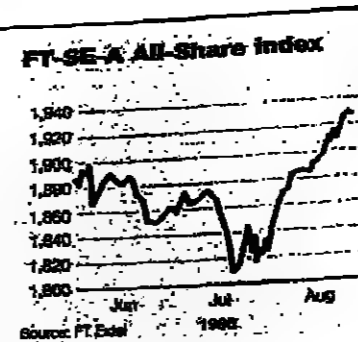
At the day's best the FT-SE 100 was 1.3 higher at 3,908.3. Thereafter it slipped away to end the

session marginally lower.

The big winners in the FT-SE 100 included Pearson, the media group, whose shares surged ahead amid talk of a break-up bid for the group, while BAT Industries featured with a near 3 per cent rise after positive news from the US.

BSkyB shares extended their recent excellent performance, hitting yet another all-time record in the wake of the recent good results and the bullish outlook for its satellite television service.

On the downside Standard Chartered was unsettled by a sell note issued by one of the top



Indices and ratios

FT-SE 100	3905.7	-1.8
FT-SE Mid 250	4428.3	+3.5
FT-SE-A 350	1954.5	-2.5
FT-SE-A All-Share	3905.5	-1.5
FT-SE-A All-Share yield	3.82	

Best performing sectors

1 Tobacco	+2.5
2 Diversified Industrials	+0.7
3 Engineering/Vehicles	+0.5
4 Media	+0.5
5 Electricity	+0.5

US talks
blow for
Airways

British Airways fell steeply after the late afternoon announcement that the US Transportation Department had decided to cancel the "open skies" talks due to be held this week.

The news sparked clear speculation that the US decision would make it difficult for BA and American Airlines to push through their big marketing merger.

In turnover of 4.4m, BA shares fell more than 3 per cent, ending off 11 at 519p.

The two airlines' code sharing agreement was expected to be in place by next April, and BA's initial thoughts on the deal were that it would pump up over 100 jobs by around 10 per cent in a full 12 months.

Sentiment was also dented by concern for next week's traffic returns. BA's traffic flows have been dull lately and the betting among analysts is that the August figures will maintain the flat trend.

Britain's largest life insurer Prudential Corporation was a feature as the market digested the news of the sale of its Merchantile & General subsidiary to Swiss Re.

The £1.75bn which the UK insurance group received was well above the market's best expectations of around £1.1bn and the news sent the

group's shares rising to the day's peak of 445p.

However, a combination of general profit-taking and speculation about how Prudential is spending the proceeds of the sale saw the shares come off the top to close unchanged at 437p.

Dealers said Prudential was now free to pursue its ambition of acquiring a building society and a life company. The Woolwich building society, which plans to float next year, and Friends Provident, the mutual life insurer, remain the favourite candidates.

The Pru is thought to have made informal approaches to both.

Recent speculation has suggested the group would require a hefty rights issue to fund its ambitious takeover plans. However, analysts said concerns about a large rights issue from the group had been eased by the high price achieved for M&G.

Conglomerates shook off a few cobwebs to feature among the top 10 best performing Footsie stocks.

The performance was partly recovery with the sector catching up with the market after a period of prolonged relative weakness. There was one notable story, involving Hanson, which jumped 2% to 185p in 9.2m trading.

According to a newswire interview with Mr Bill Landuyt, head of Hanson's Mid-Julian chemicals arm, there is not a single entity with the Hanson group that has not attracted some sort of

takeover interest.

Thus bid premium, which has been absent this year with the shares lagging the market by more than 20 per cent, was once again a tentative talking point. Some brokers are said to be calling the bottom for the sector.

At all events, BTR added 6 to 252p in 14m trading - the heaviest Footsie volume of the day - Tomkins gained 3% to 260p and Williams 3% to 342p. Pearson sparked as dealers focused on a recent magazine article speculating about the group's break up value.

The shares gained nearly 3 per cent, rising 19 to 65p, to make it the day's best performer in the Footsie. Volume was just 1.9m, much of it in the second half of the session.

A recent court ruling helped tobacco and financial services group BAT Industries.

Rolls-Royce continued to improve ahead of tomorrow's interim results, as the news and Sunday's start to the Farnborough International air show.

Sentiment has been firm recently following positive news on aero engine contracts, and hopes were running high among analysts yesterday that the company would have further good news to unveil at next week's air show.

The shares gained 5 to 280p in a busy 7.8m traded for a two day advance of 5 per cent. The stock, which also reported interim results tomorrow, added a penny to 141p.

There was profit-taking in Bass, which fell 5% to 83p. In the wake of its plan to take control of Carlsberg-Tetley, Allied Domecq, which is selling its stake in Carlsberg-Tetley to Bass, rose 3% to 453p. Analysts said that Allied should be able to get advantageous beer purchasing agreements after the deal is concluded. Whitbread rose 3% to 724p after hints

tries shake off the recent gloom that has overhung the shares. The stock moved 10% ahead to 436p, in heavy trading volume of 14m.

A jury in Indiana on Friday rejected a lawsuit filed by survivors of a lung cancer victim, ruling in favour of four tobacco companies including BAT subsidiary Brown & Williamson, that were blamed for his death.

Building materials minnow, Darby jumped 37% to close at 109p after confirming that it had received several potential takeover approaches, although none of these had so far yielded any significant results.

British-Borneo ended 22 firmer at 568p on news that it had struck oil reserves equivalent to its initial expectations in the Morpeth field in the Gulf of Mexico.

Shell and BP ended down 9% at 940p and 12% to

624p respectively, with analysts attributing the retreat to softening oil prices.

But ABN-Amro Roare Govett reiterated its "buy" recommendation on Shell, citing the potential to improve profits by £1.1bn in the forthcoming restructuring of downstream operations in Europe.

Asda fell 2 to 115p following the announcement that Mr Archie Norman, its chief executive is to become the non-executive chairman, to be replaced by Mr Allan Leighton, his deputy. Analysts were divided between pessimists who felt that Mr Norman might be winding down his involvement with Asda and the more optimistic who believed he would still play an important role and that his successor was highly respected.

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from Allied that it might purchase new beer supplies from the brewer.

A resumption of a takeover battle for Lloyds Chemicals was expected after the announcement that buyers have been found for its drugs wholesale businesses. The Monopolies and Mergers Commission said such disposals had to be agreed before bids for Lloyds Chemicals, which rose 7% to 485p, could resume.

There was profit taking in W Z Smith, which fell 15% to 515p, ahead of today's interim results where there will be strong interest in the current trading position.

Storehouse rose 5 to 315p with one or two brokers taking a more positive view.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFTS) £25 per full index point

Open	Settle	Change	High	Low	Est. vol	Open	Settle	Change	High	Low	Est. vol
3905.0	3923.5	-1.5	3930.0	3900.0	470	3905.0	3923.5	-1.5	3930.0	3900.0	470

FT-SE 100 INDEX OPTION (LIFTS) £10 per full index point

Open	Settle	Change	High	Low	Est. vol	Open	Settle	Change	High	Low	Est. vol
3905.0	3923.5	-1.5	3930.0	3900.0	470	3905.0	3923.5	-1.5	3930.0	3900.0	470

EURO STYLE FT-SE 100 INDEX OPTION (LIFTS) £10 per full index point

Open	Settle	Change	High	Low	Est. vol	Open	Settle	Change	High	Low	Est. vol
3905.0	3923.5	-1.5	3930.0	3900.0	470	3905.0	3923.5	-1.5	3930.0	3900.0	470

LONDON RECENT ISSUES: EQUITIES

Issue	Amount	Price	Yield	Div.	Div. Yield	P/E	Div. Yield	P/E
100	100	100	100	100	100	100	100	100

FT GOLD MINES INDEX

Open	Settle	Change	High	Low	Est. vol	Open	Settle	Change	High	Low	Est. vol
100	100	100	100	100	100	100	100	100	100	100	100

FT-SE Actuaries Share Indices

Day's	Aug 27	Aug 28	Aug 29	Aug 30	Aug 31	Year	Div.	Div. Yield	P/E	Div. Yield	P/E
FT-SE 100	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7

FT-SE Actuaries All-Share

Day's	Aug 27	Aug 28	Aug 29	Aug 30	Aug 31	Year	Div.	Div. Yield	P/E	Div. Yield	P/E
10	10	10	10	10	10	10	10	10	10	10	10

Hourly movements

Open	10.00	11.00	12.00	13.00	14.00	15.00	16.00	17.00	High/Low/Day
FT-SE 100	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7	3905.7

FT-SE Actuaries 350 Industry baskets

Open	10.00	11.00	12.00	13.00	14.00	15.00	16.00	17.00	High/Low/Day
Bldg & Constr	1176.4	1176.4	1176.4	1176.4	1176.4	1176.4	1176.4	1176.4	1176.4

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

BIDDING ANNOUNCEMENT

INTERNATIONAL BIDDING ENTRY NO 567-9-005-96
Object: Implementation of Polo Arara Station, in the Urucu Oil Field, Municipality of Coari, State of Amazonas, Brazil, including technical engineering services to verify the basic design data consistency, to execute the detail design, material and equipment supply, civil construction, industrial assembling including Natural Gas Processing Unit, tanks and spheres assembly, commissioning, tests performance, pre-operation and start-up support. Term: 17 (seventeen) months for the start-up and 9 (nine) months for operation assistance. Bidding Condition: LUMP SUM basis. Judgement Criteria: Smaller price. Address for acquisition of the bid: SEGEN/ENINOR, Rua General Canabarro, 500 - 9º floor - Rio de Janeiro - RJ - Brazil - ZIP: 20271-900 - phone: 55 21 566-5846 - fax: 55 21 566-5730, from August 28, 1996. Tender presentation date: October, 22 at 2:00 pm. at SEGEN's Auditorium, Rua General Canabarro, 500 - 9º floor - Rio de Janeiro - RJ - Brazil.

BID COMMITTEE

CALL FOR EXPRESSIONS OF INTEREST
FOR THE PURCHASE OF THE GROUPS OF
ASSETS OF "MINAIDIS-FOTIADIS WOOL
INDUSTRY S.A." OF ATHENS, GREECE

ETHNIKI KATASTASI S.A., Administration of Assets and Liabilities, of 9a, Chrysosfiliotou St., Athens, Greece, in its capacity as Liquidator of "MINAIDIS-FOTIADIS WOOL INDUSTRY S.A.", a company with its regional office in Athens, Greece, the "Company", presently under special liquidation according to the provisions of Article 46a of Law (1892/1994), by virtue of Decision No. 1919/1994 of the Athens Court of Appeal invites interested parties to submit within twenty (20) days from the publication of this call, non-binding written expressions of interest in purchasing one or more of the groups of assets mentioned below, each one being sold as a single entity.

BRIEF INFORMATION
The Company was established in 1943 and was in operation until 1995, when it was declared bankrupt. On 21.12.1995 it was placed under special liquidation. Its activities included the manufacturing, selling and export of wool and blended fabrics.

- GROUPS OF ASSETS OFFERED FOR SALE**
- A spinning and weaving mill in the Athens area (surrounded by Lakonaton St., N. Ionia Avenue S. Vranitoulou St. D. Ralli), consisting of several buildings of 10,438 sqm., standing on a plot of approximately 100 sqm., and containing machinery, mechanical equipment and a limited amount of stock in trade. The company's registered name is also being offered for sale.
 - A plot of land of approximately 517 sqm., located beyond the city planning area, in the region of Koutoukion on the island of Salamina.
 - A plot of land of approximately 770 sqm., located in the same areas as the above.
 - A plot of land of approximately 517 sqm., located beyond the city area, in the region of Aliko on the island of Salamina.

SALE PROCEDURE
The Company's assets will be sold by way of Public Auction in accordance with the provisions of Article 46a of Law (1892/1994) (as supplemented by art. 14 of L. 2700/1991 and subsequently amended), and the terms set out in the call for tenders for the sale of the above assets, to be published in the Greek and foreign press on the dates provided by law. (This is the third auction to take place.)

SUBMISSION OF EXPRESSIONS OF INTEREST - OVERSEAS INFORMATION

For the submission of Expressions of Interest and for obtaining copies of the Offering Memorandum and any other information, please contact the Liquidator "ETHNIKI KATASTASI S.A. Administration of Assets and Liabilities", 9a Chrysosfiliotou St., Athens 105 60, GREECE. Tel: +30-1-323.1434-47, Fax: +30-1-323.7915 (attention Mrs. Maria Frangoulis).

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CONTRACTS & TENDERS

PETRÓLEO BRASILEIRO S.A. PETROBRAS

BIDDING ANNOUNCEMENT

INTERNATIONAL BIDDING ENTRY NO 567-9-005-96
Object: Implementation of Polo Arara Station, in the Urucu Oil Field, Municipality of Coari, State of Amazonas, Brazil, including technical engineering services to verify the basic design data consistency, to execute the detail design, material and equipment supply, civil construction, industrial assembling including Natural Gas Processing Unit, tanks and spheres assembly, commissioning, tests performance, pre-operation and start-up support. Term: 17 (seventeen) months for the start-up and 9 (nine) months for operation assistance. Bidding Condition: LUMP SUM basis. Judgement Criteria: Smaller price. Address for acquisition of the bid: SEGEN/ENINOR, Rua General Canabarro, 500 - 9º floor - Rio de Janeiro - RJ - Brazil - ZIP: 20271-900 - phone: 55 21 566-5846 - fax: 55 21 566-5730, from August 28, 1996. Tender presentation date: October, 22 at 2:00 pm. at SEGEN's Auditorium, Rua General Canabarro, 500 - 9º floor - Rio de Janeiro - RJ - Brazil.

BID COMMITTEE

CREDIT NATIONAL
US\$ 250,000,000 Floating Rate Notes due 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the interest period from August 27, 1996 to November 25, 1996 the Notes will carry an interest rate of 5.49219 % per annum.

The Coupon Amount payable on the relevant Interest Payment Date, November 25, 1996 will be US\$ 13.73 per US\$ 1,000 principal amount of Note, US\$ 137.30 per US\$ 10,000 principal amount of Note and US\$ 1,373.05 per US\$ 100,000 principal amount of Note.

The Agent Bank is **Kredietbank Luxembourg**

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Highs & Lows shown on a 52 week basis

Rank	Name	Score	Rank	Name	Score
500	Chapman	27.0	250	Wright	15.0
1250	Chapman	26.0	240	Wright	14.0
1500	Chapman	25.0	230	Wright	13.0
1600	Chapman	24.0	220	Wright	12.0
2000	Chapman	23.0	210	Wright	11.0
1815	Chapman	22.0	200	Wright	10.0
2200	Chapman	21.0	190	Wright	9.0
2300	Chapman	20.0	180	Wright	8.0
2400	Chapman	19.0	170	Wright	7.0
2500	Chapman	18.0	160	Wright	6.0
2600	Chapman	17.0	150	Wright	5.0
2700	Chapman	16.0	140	Wright	4.0
2800	Chapman	15.0	130	Wright	3.0
2900	Chapman	14.0	120	Wright	2.0
3000	Chapman	13.0	110	Wright	1.0
3100	Chapman	12.0	100	Wright	0.0
3200	Chapman	11.0	90	Wright	0.0
3300	Chapman	10.0	80	Wright	0.0
3400	Chapman	9.0	70	Wright	0.0
3500	Chapman	8.0	60	Wright	0.0
3600	Chapman	7.0	50	Wright	0.0
3700	Chapman	6.0	40	Wright	0.0
3800	Chapman	5.0	30	Wright	0.0
3900	Chapman	4.0	20	Wright	0.0
4000	Chapman	3.0	10	Wright	0.0
4100	Chapman	2.0	0	Wright	0.0
4200	Chapman	1.0			
4300	Chapman	0.0			
4400	Chapman	0.0			
4500	Chapman	0.0			
4600	Chapman	0.0			
4700	Chapman	0.0			
4800	Chapman	0.0			
4900	Chapman	0.0			

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70300	Raymond
70301	Raymond
70302	Raymond
80175	Raymond
17123	Sam
3643	Sam
8942	Sam
10000	Sam
71437	Sam
107889	Sam
4783	Sam
11870	Sam
22200	Sam
30000	Sam
30306	Sam
17315	Sam
71281	Sam
884408	Sam
17810	Sam
12500	Sam
204	Sam
20678	Sam
50678	Sam
17820	Sam
301182	Sam
302400	Sam
147	Sam
3700	Sam

[illegible]

		\pm	High	Low	Th	Pos
Algeria	20.55	+13	24.40	14.10	2.0	
Angola	25	-	28.45	18.75	1.1	
Arctic	25	-	28.45	18.75	1.1	
Arctic	187.50	+1.60	190.1	186.25	2.3	
Arctic	287.50	+1.60	290.1	286.25	2.3	
Arctic	400.75	+3.75	404.5	397.0	7.5	
Arctic	400.75	+3.75	404.5	397.0	7.5	
Arctic	20.20	-	23.3	16.7	1.4	
Arctic	141.25	+3.50	144.75	137.75	7.0	
Arctic	141.25	+3.50	144.75	137.75	7.0	
Arctic	34.25	+0.55	34.8	33.7	1.1	
Arctic	1.00	-	1.00	0.95	0.05	
Arctic	3.00	+1.00	4.00	2.00	2.0	
Arctic	3.00	+1.00	4.00	2.00	2.0	
Arctic	3.00	+1.00	4.00	2.00	2.0	
Arctic	58.25	+1.75	60.0	56.5	3.5	
Arctic	41.50	+0.75	42.25	40.75	1.5	
Arctic	10.50	+0.75	11.25	9.75	1.5	
Arctic	7.15	+0.25	7.40	6.90	0.5	
Arctic	25.75	+1.00	26.75	24.75	2.0	
Arctic	25.75	+1.00	26.75	24.75	2.0	
Arctic	27.20	+0.20	27.40	26.95	0.45	
Arctic	14.00	+0.25	14.25	13.75	0.5	
Arctic	14.00	+0.25	14.25	13.75	0.5	

Spain	15.30	+20	17.75	12.50	1.0
Sweden	15.30	+20	17.75	12.50	1.0
Switzerland	7.40	-	8.00	7.00	0.5
Germany	44.80	-	50.00	41.91	0.9
France	12.00	-	13.00	11.00	0.5
Italy	17.35	-	18.50	17.00	0.9
Belgium	3.10	-	3.40	3.00	0.2
Denmark	87.75	-	94.00	82.50	1.2
Japan	58.00	-	63.00	54.00	0.9
U.K.	58.25	-	63.00	54.00	0.9
Thailand	43.50	+30	50.00	42	1.3
China	43.50	+30	50.00	42	1.3
India	3.15	+7.0	4.00	3.00	0.8
South Africa	194.00	+20	210.00	180.00	3.0
SE Asia	14.40	-10	12.50	13.75	0.5
Russia	50	-	55.00	45.00	0.5
Latin America	100.75	-10	110.00	90	1.5
Europe	18.50	-	20.00	16.50	0.5
Asia	18.50	-	20.00	16.50	0.5
South America	69	-	75.00	60	0.8
Central America	49	-	55.00	45	0.5
Caribbean	6.04	+20	6.50	4.90	0.2
Trinidad	67.25	+20	75.00	60	0.5
Costa Rica	36.25	+11.25	47.50	35.00	0.5
Guatemala	36.25	+11.25	47.50	35.00	0.5
Honduras	36.25	+11.25	47.50	35.00	0.5
Nicaragua	36.25	+11.25	47.50	35.00	0.5
Panama	71.50	+20	80	60	1.4
Paraguay	43.50	-	48.00	40	0.5
Peru	48.00	-	52.00	45	0.5
Uruguay	10.80	+40	14.75	10	0.5
Venezuela	10.80	+40	14.75	10	0.5
Colombia	10.80	+40	14.75	10	0.5
Nicaragua	10.80	+40	14.75	10	0.5
Honduras	10.80	+40	14.75	10	0.5
Guatemala	10.80	+40	14.75	10	0.5
Costa Rica	10.80	+40	14.75	10	0.5
Trinidad	10.80	+40	14.75	10	0.5
Caribbean	10.80	+40	14.75	10	0.5
South America	10.80	+40	14.75	10	0.5
Asia	10.80	+40	14.75	10	0.5
Europe	10.80	+40	14.75	10	0.5
Latin America	10.80	+40	14.75	10	0.5
SE Asia	10.80	+40	14.75	10	0.5
South Africa	10.80	+40	14.75	10	0.5
India	10.80	+40	14.75	10	0.5
China	10.80	+40	14.75	10	0.5
Thailand	10.80	+40	14.75	10	0.5
U.K.	10.80	+40	14.75	10	0.5
Japan	10.80	+40	14.75	10	0.5
Denmark	10.80	+40	14.75	10	0.5
Belgium	10.80	+40	14.75	10	0.5
Italy	10.80	+40	14.75	10	0.5
France	10.80	+40	14.75	10	0.5
Germany	10.80	+40	14.75	10	0.5
Sweden	10.80	+40	14.75	10	0.5
Spain	10.80	+40	14.75	10	0.5

Portugal	58.29	+25	971	61.0	1.8
Qatar	21.92	+25	141	10.0	1.8
Romania	124.44	+25	145	110.0	2.0
Saudi Arabia	55	+50	97	32.0	3.5
Slovenia	44	+25	97	22.0	3.5
Slovakia	172	+4	2002	81	2.8
Spain	32.50	+140	1	118	1.0
U.S.	44	+25	112	118	1.0
U.K.	151	+171	74	440	1.7
Yemen	75	+25	145	110.0	2.0
Yugoslavia	303.50	+3	480	200	4.1
Average	100	+25	100	100	1.0
Deep	170	+3	225	100.0	3.0
Shallow	34	-30	44	25	3.8

Source: *commodityupdate.com*

Prices on this page are all quoted on the London metal exchange and are mostly last trading prices. The numbers in parentheses are the number of contracts traded, and the last 4 Duffelton contracts. All prices are in U.S. dollars.

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Stocks Traded	Closing Prices	Change on day
3.8m	460	+43
2.3m	540	
2.1m	1150	+20
2.0m	868	-1
1.9m	369	+2

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Stocks Traded	Closing Prices	Change on day
3.8m	460	+43
2.3m	540	
2.1m	1150	+20
2.0m	868	-1
1.9m	369	+2

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22	577	35 $\frac{1}{2}$	35 $\frac{1}{2}$	35 $\frac{1}{2}$	+1 $\frac{1}{2}$
18	612	13 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	+1 $\frac{1}{2}$

$$0.04 \quad 8 \quad 3292 \quad 6^3_0 \quad 5^3_{12} \quad 6^3_2 \quad +^{10}_{16}$$

AMERICA

Rising bonds lift stocks at midsession

Wall Street

Rising bond prices helped lift shares to post modest gains in quiet midsession trading as both markets recovered some of Monday's losses, writes Lisa Brannen in New York.

At 1 pm the Dow Jones Industrial Average was up 7.77 at 5,701.66, the Standard & Poor's 500 rose 1.28 at 865.16, and the American Stock Exchange composite was 0.41 stronger at 581.13. NYSE volume was 178m shares.

Technology shares were mostly stronger with the technology-rich Nasdaq composite rising 5.50 at 1,144.72. The four largest companies on the Nasdaq were up with Microsoft rising 8.17 at \$144.04 and Oracle gaining 8.17 at \$35.15, while Intel lost 0.24 at \$60.75 and Cisco Systems weakened by 0.17 at \$54.75.

Both the stock and bond markets fell on Monday amid worries that the Federal Reserve was more likely to raise interest rates than many investors had believed.

Consolidated Freightways rose 0.24 at 9.00, a 10 per cent gain, after announcing late on Monday that it planned to spin off several of its businesses. An analyst at Morgan Stanley yesterday raised his rating on the company to outperform from neutral. Career Horizons gave back

3 1/2 of the 6 1/2 it jumped on Monday after Accutest said it would buy the company for nearly \$1bn. That took the shares to \$88. Accutest, which lost \$3 on Monday, fell another 8 1/2 bringing the shares to \$84 1/2.

Theracorp company shares, which have tumbled since mid-August after an unfavorable court ruling, regained some ground yesterday. Philip Morris added 0.17 at \$61.17 and RJR Nabisco added 0.17 at \$26.75.

Canada

Toronto maintained a negative bias at midsession as investors digested third quarter earnings reports from Bank of Montreal and Bank of Nova Scotia, the first of Canada's big six banks to report. The TSX-300 composite index was 9.10 weaker at 5,177.60 in volume of 37.4m shares.

Bank of Montreal lost 10 cents to C\$33.80 and Scotia-Bank fell 30 cents to C\$33.80 in the wake of their results. National Bank of Canada, also actively traded, picked up a cent to C\$1.65.

Alcan Communications added to Monday's 80 cent fall, losing 10 cents to C\$3.15 as investors continued to take a dim view of the resignation of the chief financial officer. Mr Graham Savage who was the second senior executive to leave the company this year.

EUROPE

Swiss Re plaudits counter Roche anticlimax

An upbeat assessment of Swiss Re's purchase of M&A countered disappointment in Zurich at first half profit figures from Roche. The BMI index finished 7.8 ahead at 3,785.5, pulled back from a high of 3,781.7 by news that US consumer confidence was at its highest level since early 1990.

Swiss Re jumped 0.14 at 2.44 per cent to Sfr1.301 on the view that the company's Sfr3.5bn purchase from Britain's Prudential would boost group earnings and enhance shareholder value.

However, Roche's first-half earnings of Sfr1.4bn, up from Sfr1.3bn a year ago, were not enough to lift the shares to Sfr1.40, up 55 pps to Sfr1.345, and 55 pps to Sfr1.345 respectively.

MAN boosted the engineers in 1995-96 net profit, climbing DM15.80 to DM28.10, although, said Mr Michael C. Meyer at C&F, the company's position in truck and printing machinery were not real cause for rejoicing. Meanwhile, the fork-lift leader, saw a 0.8 per cent rise in first half profit and fell DM2.45 to DM28.75.

Karstadt, Germany's biggest department store group, reported a fractional decline in first half sales and fell DM6 to DM28.55; the new retailing supergroup, Metro, dropped DM2.50 to DM28.55.

FRANKFURT saw German stock market turnover more than double from DM50m to DM500m as the Day Index rose 0.17 to an all-time high of 3,563.59. Chemicals had a good day, engineering was good to mixed and the big retailers were clearly depressed.

In chemicals the business magazine, Capital, said that Hoechst could lift its operating profits by DM1bn to DM4.5bn this year, backing up above-consensus forecasts from Mr Peter Houghton of JP Morgan and lifting the shares by DM2.00 to DM28.57; BASF and Bayer responded, up 55 pps to DM44.55, and 55 pps to DM44.55 respectively.

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FT-SE ACTUARIES FUTURE INDICES

THE EUROPEAN SERIES									
Hourly changes	Open	10:30	11:00	12:00	13:00	14:00	15:00	Close	
FTSE Euro Stoxx 100	1667.45	1667.79	1667.42	1667.08	1668.58	1668.43	1668.54	1667.99	
FTSE Euro Stoxx 500	1709.49	1707.41	1708.24	1707.48	1709.16	1708.47	1708.39	1709.50	
		Aug 23	Aug 22	Aug 21	Aug 20	Aug 19	Aug 18	Aug 17	
FTSE Euro Stoxx 100		1686.71	1682.11	1693.00	1689.26	1690.74			